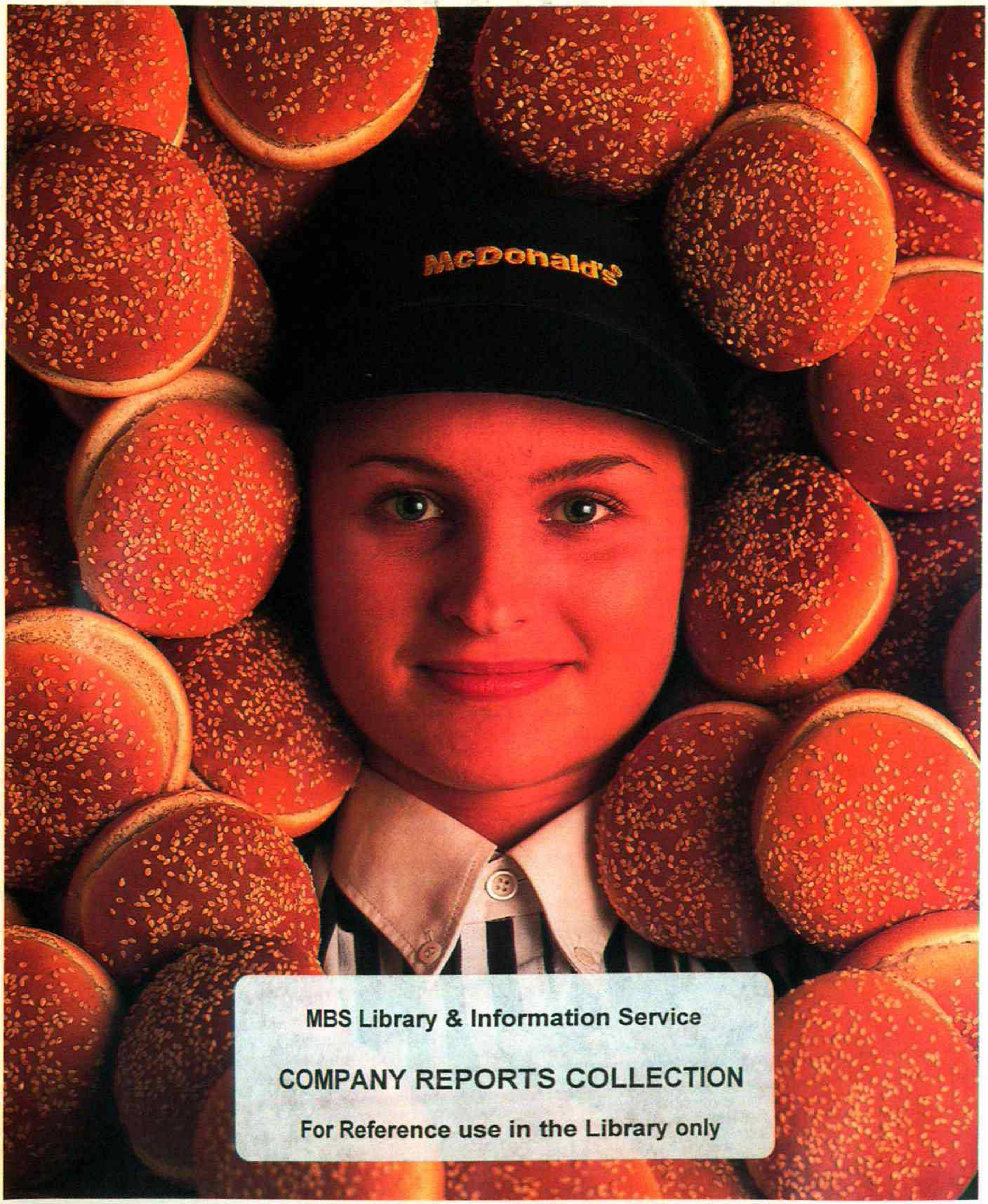
McDonald's

# The Annual

McDONALD'S CORPORATION 1997 ANNUAL REPORT



**over 100 countries, our global market ven as the market leader, McDonald's rld's population. Our outstanding brand t, high-quality food, site development ems and unique global infrastructure pportunities. We plan to expand our ience, superior value and excellent rket share, profitability and customer turns to shareholders–a compound cent over the past 10 years.**

**Market price per common share at year end**

*In dollars, restated for stock splits*


# t-known global food service retailer

| **11-year summary** | **1997** | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions, except per common share data and average restaurant sales)* | | | | | | | | | | | |
| Systemwide sales | **$33,638** | 31,812 | 29,914 | 25,987 | 23,587 | 21,885 | 19,928 | 18,759 | 17,333 | 16,064 | 14,330 |
| Systemwide sales by type | | | | | | | | | | | |
| Operated by franchisees | **$20,863** | 19,969 | 19,123 | 17,146 | 15,756 | 14,474 | 12,959 | 12,017 | 11,219 | 10,424 | 9,452 |
| Operated by the Company | **$ 8,136** | 7,571 | 6,863 | 5,793 | 5,157 | 5,103 | 4,908 | 5,019 | 4,601 | 4,196 | 3,667 |
| Operated by affiliates | **$ 4,639** | 4,272 | 3,928 | 3,048 | 2,674 | 2,308 | 2,061 | 1,723 | 1,513 | 1,444 | 1,211 |
| Average sales by Systemwide restaurants *(in thousands)* | **$ 1,592** | 1,708 | 1,844 | 1,800 | 1,768 | 1,733 | 1,658 | 1,649 | 1,621 | 1,596 | 1,502 |
| Total revenues | **$11,409** | 10,687 | 9,795 | 8,321 | 7,408 | 7,133 | 6,695 | 6,640 | 6,066 | 5,521 | 4,853 |
| Revenues from franchised and affiliated restaurants | **$ 3,272** | 3,116 | 2,931 | 2,528 | 2,251 | 2,031 | 1,787 | 1,621 | 1,465 | 1,325 | 1,186 |
| Operating income | **$ 2,808** | 2,633 | 2,601 | 2,241 | 1,984 | 1,862 | 1,679 | 1,596 | 1,438 | 1,288 | 1,160 |
| Income before provision for income taxes | **$ 2,407** | 2,251 | 2,169 | 1,887 | 1,676 | 1,448 | 1,299 | 1,246 | 1,157 | 1,046 | 959 |
| Net income | **$ 1,643** | 1,573 | 1,427 | 1,224 | 1,083 | 959 | 860 | 802 | 727 | 646 | 549(1) |
| Cash provided by operations | **$ 2,442** | 2,461 | 2,296 | 1,926 | 1,680 | 1,426 | 1,423 | 1,301 | 1,246 | 1,177 | 1,051 |
| Capital expenditures | **$ 2,111** | 2,375 | 2,064 | 1,539 | 1,317 | 1,087 | 1,129 | 1,571 | 1,555 | 1,321 | 1,027 |
| Treasury stock purchases | **$ 765** | 605 | 321 | 500 | 628 | 92 | 117 | 157 | 497 | 136 | 143 |
| Financial position at year end | | | | | | | | | | | |
| Net property and equipment | **$14,961** | 14,352 | 12,811 | 11,328 | 10,081 | 9,597 | 9,559 | 9,047 | 7,758 | 6,800 | 5,820 |
| Total assets | **$18,242** | 17,386 | 15,415 | 13,592 | 12,035 | 11,681 | 11,349 | 10,668 | 9,175 | 8,159 | 6,982 |
| Total debt | **$ 6,463** | 5,523 | 4,836 | 4,351 | 3,713 | 3,857 | 4,615 | 4,792 | 4,036 | 3,269 | 2,784 |
| Total shareholders' equity | **$ 8,852** | 8,718 | 7,861 | 6,885 | 6,274 | 5,892 | 4,835 | 4,182 | 3,550 | 3,413 | 2,917 |
| Per common share | | | | | | | | | | | |
| Net income(2) | **$ 2.35** | 2.21 | 1.97 | 1.68 | 1.45 | 1.30 | 1.17 | 1.10 | .97 | .86 | .72(1) |
| Net income–diluted(2) | **$ 2.29** | 2.16 | 1.93 | 1.63 | 1.42 | 1.27 | 1.14 | 1.07 | .96 | .85 | .71(1) |
| Dividends declared | **$ .32** | .29 | .26 | .23 | .21 | .20 | .18 | .17 | .15 | .14 | .12 |
| Market price at year end | **$ 47 3/4** | 45 3/8 | 45 1/8 | 29 1/4 | 28 1/2 | 24 3/8 | 19 | 14 1/2 | 17 1/4 | 12 | 11 |
| Systemwide restaurants at year end | **23,132** | 21,022 | 18,380 | 15,950 | 14,163 | 13,093 | 12,418 | 11,803 | 11,162 | 10,513 | 9,911 |
| Systemwide restaurants by type | | | | | | | | | | | |
| Operated by franchisees | **14,265** | 13,428 | 12,217 | 10,965 | 9,933 | 9,237 | 8,735 | 8,131 | 7,573 | 7,110 | 6,760 |
| Operated by the Company | **5,000** | 4,357 | 3,816 | 3,238 | 2,746 | 2,551 | 2,547 | 2,643 | 2,691 | 2,600 | 2,399 |
| Operated by affiliates | **3,867** | 3,237 | 2,347 | 1,747 | 1,484 | 1,305 | 1,136 | 1,029 | 898 | 803 | 752 |
| Number of countries at year end | **109** | 101 | 89 | 79 | 70 | 65 | 59 | 53 | 51 | 50 | 47 |

*(1) Before the cumulative prior years' benefit from the change in accounting for income taxes.*
*(2) Net income per common share data is presented in conformity with SFAS 128.*

McDonald's is the world's leading food service organization. We measure this leadership position by several competitive advantages:

> We had nearly **14 billion customer visits** last year. That's equivalent to serving lunch *and* dinner to every man, woman and child in the world.

> McDonald's **global sales** of $33.6 billion and **operating income** of $2.8 billion are three times as much as the nearest global food service brand.

> We have the **number one market share** in the great majority of the 109 countries and territories where we operate.

> Our **U.S. sales** of $17.1 billion in 1997 were more than the next three largest hamburger brands combined.

> We have more than 45 percent of all **globally branded** quick-service restaurants outside the U.S., and 60 percent of the sales.

> McDonald's is regarded as one of the world's **greatest** brands.

To find out how McDonald's has achieved this leadership position, and how we plan to *extend* our lead, see "Creating and Managing our Cycle of Success" beginning on page 10.

### Compound annual growth rates

*For the 10-year period ended December 31, 1997*

| | |
|---|---|
| Systemwide sales | **8.9%** |
| U.S. | **4.9** |
| Outside the U.S. | **16.0** |
| Total revenues | **8.9** |
| Operating income | **9.2** |
| U.S. | **3.0** |
| Outside the U.S. | **19.4** |
| Net income | **11.6** |
| Net income per common share | **12.6** |
| Net income per common share–diluted | **12.4** |
| Cash provided by operations | **8.8** |
| Total assets | **10.1** |
| Total shareholders' equity | **11.7** |
| Total return to investors on common stock | **16.8** |

### Market price per common share

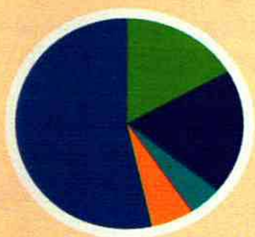
*In dollars, by quarter*

| | **1997** | | | 1996 | | |
|---|---|---|---|---|---|---|
| | High | Low | Close | High | Low | Close |
| 1st | **49 3/8** | **42 1/2** | **47 1/4** | 54 1/4 | 42 1/2 | 48 |
| 2nd | **54 7/8** | **46 3/4** | **48 5/16** | 50 3/8 | 45 3/8 | 46 3/4 |
| 3rd | **54 3/4** | **45 3/4** | **47 5/8** | 49 | 41 | 47 3/8 |
| 4th | **49 5/8** | **42 1/8** | **47 3/4** | 49 3/8 | 43 3/4 | 45 3/8 |

**With more than 23,000 restaurants in**
**potential is enormous. On any day, e**
**serves less than one percent of the wo**
**recognition, experienced managemen**
**expertise, advanced operational syst**
**position us to capitalize on global o**
**leadership position through conven**
**operations. Our efforts to increase ma**
**satisfaction have produced high re**
**annual total return of 17 per**

# McDonald's is the largest and bes

### Systemwide restaurants

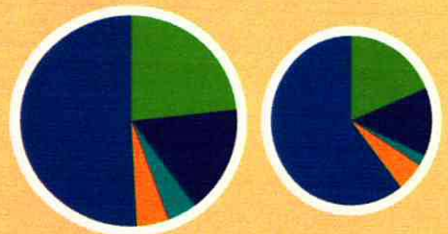


1997: 23,132

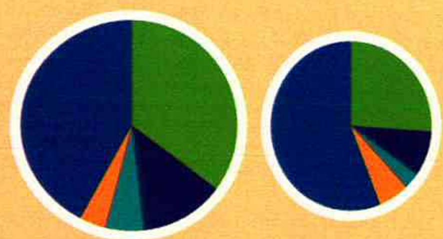
1992: 13,093

| | **1997** | 1992 |
|---|---|---|
| **United States** | **12,380** | 8,959 |
| **Europe** | **3,886** | 1,534 |
| Andorra | **2** | 1 |
| Austria | **103** | 35 |
| Belarus | **5** | 0 |
| Belgium | **60** | 16 |
| Bulgaria | **9** | 0 |
| Croatia | **8** | 0 |
| Czech Republic | **43** | 3 |
| Denmark | **78** | 21 |
| England | **746** | 429 |
| Estonia | **5** | 0 |
| Finland | **85** | 14 |
| France | **629** | 239 |
| Germany | **850** | 438 |
| Greece | **38** | 2 |
| Hungary | **62** | 10 |
| Iceland | **2** | 0 |
| Ireland | **38** | 16 |
| Isle of Man | **1** | 0 |
| Italy | **173** | 16 |
| Jersey | **1** | 0 |
| Latvia | **5** | 0 |
| Liechtenstein | **1** | 0 |
| Lithuania | **5** | 0 |
| Luxembourg | **4** | 2 |
| Macedonia | **1** | 0 |
| Malta | **6** | 0 |
| Monaco | **1** | 1 |
| Netherlands | **176** | 83 |
| Northern Ireland | **11** | 4 |
| Norway | **42** | 10 |
| Poland | **95** | 3 |
| Portugal | **45** | 4 |
| Reunion Island | **1** | 0 |
| Romania | **28** | 0 |
| Russia | **26** | 1 |
| Scotland | **47** | 24 |
| Slovakia | **5** | 0 |
| Slovenia | **9** | 0 |
| Spain | **150** | 50 |
| Sweden | **151** | 59 |
| Switzerland | **90** | 32 |
| Ukraine | **7** | 0 |
| Wales | **31** | 15 |
| Yugoslavia | **11** | 6 |
| **Asia/Pacific** | **4,456** | 1,653 |
| Australia | **642** | 338 |
| Brunei | **1** | 1 |
| China | **184** | 3 |
| Fiji | **2** | 0 |
| Guam | **6** | 4 |
| Hong Kong | **140** | 62 |
| India | **9** | 0 |
| Indonesia | **103** | 5 |
| Japan | **2,437** | 956 |
| Macau | **10** | 3 |
| Malaysia | **110** | 31 |
| New Caledonia | **1** | 0 |
| New Zealand | **137** | 61 |
| Philippines | **157** | 47 |
| Saipan | **2** | 0 |
| Singapore | **105** | 44 |
| South Korea | **114** | 15 |
| Tahiti | **1** | 0 |
| Taiwan | **233** | 67 |
| Thailand | **61** | 16 |
| Western Samoa | **1** | 0 |
| **Latin America** | **1,091** | 274 |
| Argentina | **131** | 18 |
| Aruba | **2** | 1 |
| Bahamas | **3** | 4 |
| Bermuda (U.S. Navy Base) | **0** | 1 |
| Bolivia | **3** | 0 |
| Brazil | **480** | 107 |
| Chile | **27** | 3 |
| Colombia | **18** | 0 |
| Costa Rica | **19** | 8 |
| Cuba (U.S. Navy Base) | **1** | 1 |
| Curacao | **4** | 3 |
| Dominican Republic | **4** | 0 |
| Ecuador | **2** | 0 |
| El Salvador | **0** | 3 |
| Guadeloupe | **4** | 1 |
| Guatemala | **23** | 6 |
| Honduras | **5** | 0 |
| Jamaica | **7** | 0 |
| Martinique | **5** | 1 |
| Mexico | **131** | 56 |
| Panama | **20** | 10 |
| Paraguay | **6** | 0 |
| Peru | **5** | 0 |
| Puerto Rico | **109** | 40 |
| St. Maarten | **1** | 0 |
| Suriname | **1** | 0 |
| Trinidad | **3** | 0 |
| Uruguay | **18** | 2 |
| Venezuela | **53** | 6 |
| Virgin Islands | **6** | 3 |
| **Other** | **1,319** | 673 |
| Bahrain | **5** | 0 |
| Canada | **1,050** | 658 |
| Cyprus | **3** | 0 |
| Egypt | **20** | 0 |
| Israel | **53** | 0 |
| Jordan | **2** | 0 |
| Kuwait | **16** | 0 |
| Morocco | **6** | 1 |
| Oman | **2** | 0 |
| Qatar | **3** | 0 |
| Saudi Arabia | **27** | 0 |
| South Africa | **35** | 0 |
| Turkey | **84** | 14 |
| United Arab Emirates | **13** | 0 |

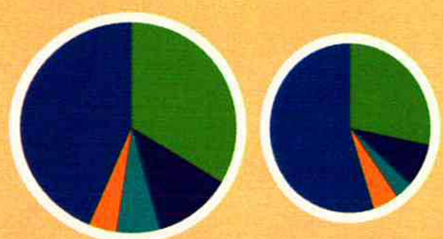
### Geographic comparisons



**Systemwide sales** *In billions*
1997: $33.6 1992: $21.9



**Operating income** *In billions*
1997: $2.8 1992: $1.9



**Assets** *In billions*
1997: $18.2 1992: $11.7

U.S.
Europe
Asia/Pacific
Latin America
Other


TM
"did somebody say McDonald's?"
HASH BROWNS

**Dear fellow shareholders:**

I'm happy to tell you that McDonald's 1997 financial results were again record-setting. Yet, 1997 was a disappointing year – our financial performance wasn't what we wanted and our stock price lagged the market.

No excuses. I believe we control our destiny.

**In the U.S.,** over the past several years, we built restaurants – a lot of them. This expansion hurt our relationship with some franchisees, and we opened some less-than-perfect sites. And by focusing on adding restaurants, we took our eye off the basics that made us famous – quality, service, cleanliness and value. To top it off, at the same time, our competition improved and lowered prices.

**I believe we must be nimble, quick to change what's not working and to improve what is.**

So, how are we shaping our destiny? We've set three U.S. priorities to make it a success.

*Our first priority is to improve restaurant operations.* To create a meaningful gap between McDonald's and the competition, we must excel. We must be the best. We'll make hotter, fresher food that's better tasting. We'll serve customers faster, make sure they get what they ordered, and be friendlier while doing it. We'll make our restaurants more appealing. We've already taken an important step – we've developed a new food preparation system that makes it easier to serve great food at the speed of McDonald's.

*Our second priority is to re-open the value gap.* We want the best prices for customers, but we also want them to enjoy the total experience. This has many facets; an important one is food taste. So, we're looking at our menu to make sure it has the taste you want at a price you want to pay. We're emphasizing the unique emotional bond we have with customers through a new U.S. advertising campaign. We're also encouraging visits through more local advertising which addresses individual market needs.

*Our last and most important priority is people.* We're strengthening relationships with our franchisees and energizing employees. We've started by reorganizing the U.S. business, bringing management and decision-making closer to customers and franchisees. Our five division presidents are talented and aggressive, and are making sales- and profit-building changes tailored to their markets' opportunities. Jack Greenberg is leading our U.S. team with dedication, insight and a willingness to take reasonable risk. They have a balanced view of the business and are focused on making decisions in the best interests of both our shareholders and owner/operators.

We are focused on improving returns and cash flow for franchisees and the Company. We're expanding, while more carefully analyzing potential returns.

These priorities affect the very core of our business, and I believe McDonald's U.S.A. will be stronger because of them. I believe the U.S. quick-service restaurant market has room for significant growth, and I want that growth to be ours.

**Internationally,** we see a world of opportunity. Our ten largest markets outside the U.S. contribute more than 80 percent of international operating income. If you look at this another way, the other 98 markets contribute less than 20 percent. Talk about potential!

Granted, the strong U.S. dollar and tough economies in key markets during 1997 pushed performance below our historical trendline. These short-term, cyclical issues in no way reduce customers' long-term demand for McDonald's. By staying the course, we are gaining strength today and positioning ourselves to seize opportunities when these cycles turn.

Our strategies internationally are simple. Make customers happy with everyday low prices and outstanding restaurant operations so they visit more frequently. Increase market share by attracting more customers more often. And, increase profitability by being more efficient and creating economies of scale.

These strategies use words like "more" and "increase." That's because our goal is to improve an already strong position. Over the years, we took the risks, investing capital and hard work, to ready the Company for long-term growth. As with many new businesses, international was not profitable at first. Fortunately, we had a strong and growing U.S. business to support us in the early years. As we grew, we built an infrastructure and gained operating experience that are priceless and, I might add, very tough to duplicate. Today, our international business represents about 60 percent of operating income, and we can draw on our vast experience to handle just about anything.

And while some competitors *talk* about plans to expand into international markets, we are *doing* business in 108 countries and territories outside the U.S. Our international business – by itself – would rank in the top half of the Fortune 500. We have a unique global advantage, and we intend to expand it.

Jim Cantalupo, President and Chief Executive Officer–International; Mike Quinlan, Chairman and Chief Executive Officer; and Jack Greenberg, Vice Chairman, Chairman and Chief Executive Officer–U.S.A.

I attribute this success to Jim Cantalupo and his team. They embody the term entrepreneurial spirit. With their knowledge, dedication and skill, they've set and executed the priorities and put the right people and infrastructures in place to support a growing business. And, they continue to tailor our strategies market-by-market, weaving Brand McDonald's into the fabric of everyday life around the world.

There's a lot of excitement in McDonaldland. I am confident we can grow earnings per share in each of the next five years in the range of 10 to 15 percent excluding foreign currency translation. When you consider the size and scope of our global business, this growth is substantial. And, such performance should enhance shareholder value.

My confidence is rooted in the dedication and best efforts of our capable employees, franchisees and suppliers, and the outstanding contributions of McDonald's Board of Directors whose focus is the long-term best interest of our shareholders.

In conclusion, I believe in taking measured risks to shape our destiny. I believe we must be nimble, quick to change what's not working and to improve what is. Also, I believe our greatest days lie ahead.

Sincerely,

Michael R. Quinlan
*Chairman and Chief Executive Officer, Shareholder*
*March 15, 1998*

# TheAnnual

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**ILLUSTRATIONS**
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**PHOTOGRAPHY**
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**Share sales** Sell some or all of your shares held in a safekeeping or MCDirect Shares account for a nominal fee.

**MCDirect Shares** Reinvest dividends or purchase more shares through our direct stock purchase plan.

**Account information** Obtain account balance, dividend payment, stock price and more information via our automated phone response service (even during non-business hours).

**ANNUAL SHAREHOLDERS' MEETING**
May 21, 1998, 10:30 AM-12:00 PM (CDST)
The Lodge, McDonald's Office Campus
Oak Brook, IL

**HOME OFFICE**
McDonald's Corporation
McDonald's Plaza
Oak Brook, IL 60523
1-630-623-3000

**WORLDWIDE WEB ADDRESS**
http://www.mcdonalds.com





First of all, I welcome McDonald's to Jamaica. I had never eaten at McDonald's, but today I decided to try your Hamburger. It has been a long time since I have bought a burger, I have been sort of "turned off" from them. I walked into your restaurant – very airy and very clean – and bought a "McDonald's Supreme." *This is to date the best burger I have ever tasted* – totally "Jamaican," well seasoned – nice and tasty. When I was finished with the burger, I could really eat another. Keep up the high standards.

*Cynthia Samuels-Thomas*
*Spanish Town, Jamaica*

I am writing to commend your employees for a job well done. My husband, my stepdaughter and I went to breakfast at McDonald's. My 21-year-old stepdaughter is profoundly retarded and suffers seizures. Just as we began eating, she suffered a grand mal seizure. Much of our breakfast was spilled.

I asked your employees for towels while my husband tended to Becky. Not only did they bring towels, but an employee helped us clean up and insisted on replacing our breakfast. Later, another employee checked to see if my stepdaughter was all right and told us of her experiences with her children's medical emergencies.

I think you can imagine the difficulties of living for such a child and the concerns we have taking her to public places. She lives in terror of seizures and of embarrassing herself. You can understand how relieved we were to have your employees be so sensitive and caring. McDonald's is one of Becky's favorite places and now we are assured we can continue to take her there.

*Judith Berndt*
*Bartlett, Illinois*

I must compliment your staff on my daughter's fifth birthday party. The caring and devoted way you took care of and amused Daphne and the other children was overwhelming. It really moved me as a father. Besides, the nominal cost is a great value for money, especially if you consider the kids have great fun for over 2 hours. I had never been in a McDonald's restaurant. However, I now have a most positive view of your organization. Thank you for such a tremendous and memorable moment in our life.

*C.M. Mastenbroek*
*Capelle a/d IJssel, Netherlands*

Just a thank you for the service we have received over the past four months. I refer to the McDonald's near Brisbane Hospital which we have visited regularly. We have had a sick child who has required constant attention, and we have always been pushed for time when we called at your restaurant. My wife and I found the staff to be very friendly and helpful which eased our stressful times.

*Ian Mischewski*
*Brisbane, England*

Thank you for granting my son the opportunity of working at McDonald's. I would also like to give a special thanks for the time you have invested in DeAndre's overall development. Many managers give up on young minds, but his supervisor's attributes extend far and beyond the norm. She manages not only the "business," but also the enhancement of young individuals. Much success to you!

*Kahletta Montgomery*
*Forestville, Maryland*

My 8-year-old daughter entered your modeling contest. We had lots of fun preparing for it and were thrilled when she (and the other contestants!) were named winners. I don't know how McDonald's teaches their employees, but we parents learned that McDonald's can be trusted and that you have our and our children's best interests at heart. I also learned McDonald's is dedicated to professional quality service no matter what country you live in or what color skin you have.

*Denise Love*
*Bogota, Colombia*

As shareholders, we thank McDonald's management and the board for 'staying the course.' We are encouraged by your clear vision for McDonald's future – focusing on global growth, instead of making 'strategic' moves to derive short-term gains; returning excess cash to shareholders through share repurchase; and emphasizing long-term, sustainable EPS growth. Please continue the great work!

*Nandan and Nupur Oza*
*Sunnyvale, California*

**How are we doing?**

**As shareholders and customers, your thoughts about McDonald's are important to us. You can call Investor Relations at 630-623-7428.**

# TheAnnual

## Editorial feature



## Year in review

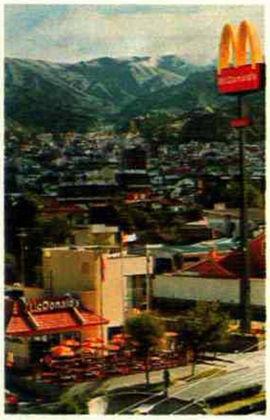


## Financial review



## Features

# what's bee



## McDonald's reaches new heights!

While McDonald's has always had the highest standards, we surpassed even those when we opened in Bolivia, our 106th country. Situated at more than 11,000 feet above sea level, the restaurant in La Paz is the highest altitude McDonald's in the world. The restaurant offers our traditional menu, with cooking procedures modified to accommodate the altitude. More than 10,000 customers visited the restaurant on opening day.

## McDonald's named "Best Drive-Thru in America"

McDonald's was recognized for providing the "Best Drive-Thru Service in America." McDonald's ranked first of all national chains on a composite index that measured drive-thru speed, accuracy, menuboard appearance and speaker clarity. In conducting the survey, market researchers from Sparagowski & Associates visited more than 9,300 quick-service restaurant locations.

## RMHC reaches out

Ronald McDonald House Charities (RMHC) took a leadership role at the Presidents' Summit for America's Future, chaired by retired General Colin Powell. RMHC pledged to spend $100 million from 1997 to 2001 to help children and their families through programs to prevent youth suicide, child abuse, substance abuse and more.

As part of this commitment, RMHC granted nearly $4 million over the next three years to expand the Chicago Public Schools' after-school program. A pilot for a national model, the McPrep program provides academic, recreational and nutritional support to children beyond traditional school hours. It is designed to improve students' comprehensive reading and math problem-solving skills, while providing a safe place for them to receive tutoring, do homework and eat dinner.


## Ronald goes around the world

Ronald McDonald occupies a special place in the hearts of the world's children. They know when this loving and trusted friend is around–fun, laughter and games can't be far behind! Ronald met even more kids in 1997, when McDonald's opened in eight more countries or territories–Bolivia, Cyprus, Ecuador, Isle of Man, Macedonia, Reunion Island, Suriname and Ukraine. This makes 109 markets enjoying the great taste of McDonald's and the great fun of the world's favorite clown!

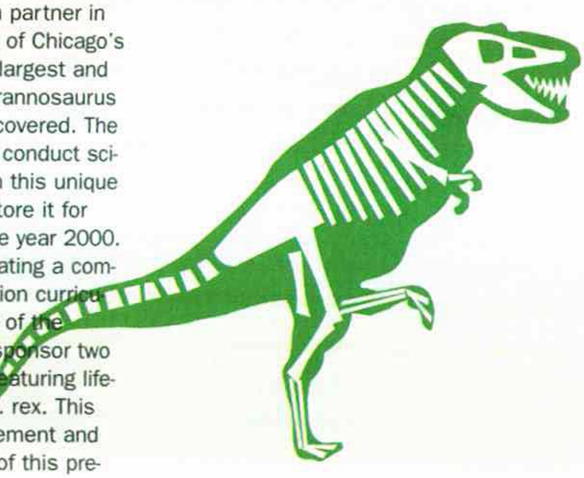
# n happenin'

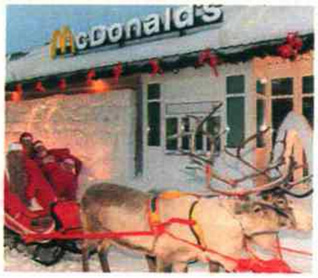
### Xtra! Xtra! Read all about it!

We're testing "extra" in a new sandwich. The McDonald's Big Xtra, or MBX, is loaded with extra beef, extra bun and extra toppings – lettuce, tomato, onions, pickles, ketchup and mayo!! Special seasoning provides extra flavor and a great price delivers extra value to differentiate the MBX from our competitors. Tests from around the U.S. show customers are extra-excited about this whole new taste from McDonald's. It's just one example of how McDonald's is testing new products to further satisfy customers.

### Our millennium gift to the world

McDonald's was a partner in The Field Museum of Chicago's acquisition of the largest and most complete Tyrannosaurus rex fossil ever discovered. The Field Museum will conduct scientific research on this unique specimen and restore it for public display in the year 2000. McDonald's is creating a comprehensive education curriculum on the history of the dinosaur and will sponsor two traveling exhibits featuring life-size casts of the T. rex. This will bring the excitement and educational value of this precious fossil to a broad audience for the millennium.





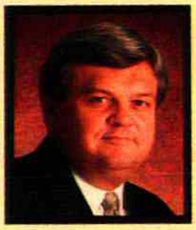

### Santa's neighborhood McDonald's

The northernmost McDonald's restaurant in the world and the first McDonald's on the Arctic Circle opened in Rovaniemi, Finland – recognized in Finland as the official home of Santa Claus. Thousands joined Santa and his elves in the outdoor grand opening festivities, despite Lapland's winter darkness and subzero temperatures. As the restaurant closest to the North Pole, it is sure to become Santa's favorite.

### "Did Somebody Say McDonald's?"

The strategy for our new U.S. advertising campaign recognizes that our customers come to McDonald's for more than just food–they come for the total experience. Our customers have an emotional bond with us because of the special feelings they associate with a visit to McDonald's. The "Did Somebody Say McDonald's?" advertising is designed to produce a craving for McDonald's food, while reinforcing the entire McDonald's experience.

# Chief Financial Officer Answers Shareholder Questions



*Mike Conley, Executive Vice President and Chief Financial Officer*

**Q We hear a lot about cash flow, returns and share repurchase. How do they fit into your financial strategy?**

A Our operations generate a significant amount of cash – almost $11 billion in the past five years. Our job is to effectively use this capital to maximize shareholder returns – by expanding our business, buying back our stock and paying dividends. We're working hard to improve returns in several ways. First, we're focusing significant efforts on increasing sales and profits in all our restaurants, by increasing customer satisfaction and controlling costs. Second, we improved our sales projection tools and are now opening fewer restaurants in the U.S., but better ones. In addition, we continue to explore opportunities to employ capital in the U.S. business most effectively. In 1997, our efforts lowered capital expenditures, creating more cash flow. We expect capital expenditures to remain relatively flat in 1998, with the majority invested outside the U.S., where returns are higher. That brings us to another method of maximizing shareholder returns – share repurchase and dividends. Over the past ten years, we have purchased $3.8 billion, or 146 million shares, of our stock and paid $1.5 billion in cash dividends. These actions increase net income per share, return cash to shareholders and increase returns. You can expect we will continue to buy our stock.

**Q The strong U.S. dollar reduced your 1997 results. What are you doing to manage the effect of foreign currency fluctuations?**

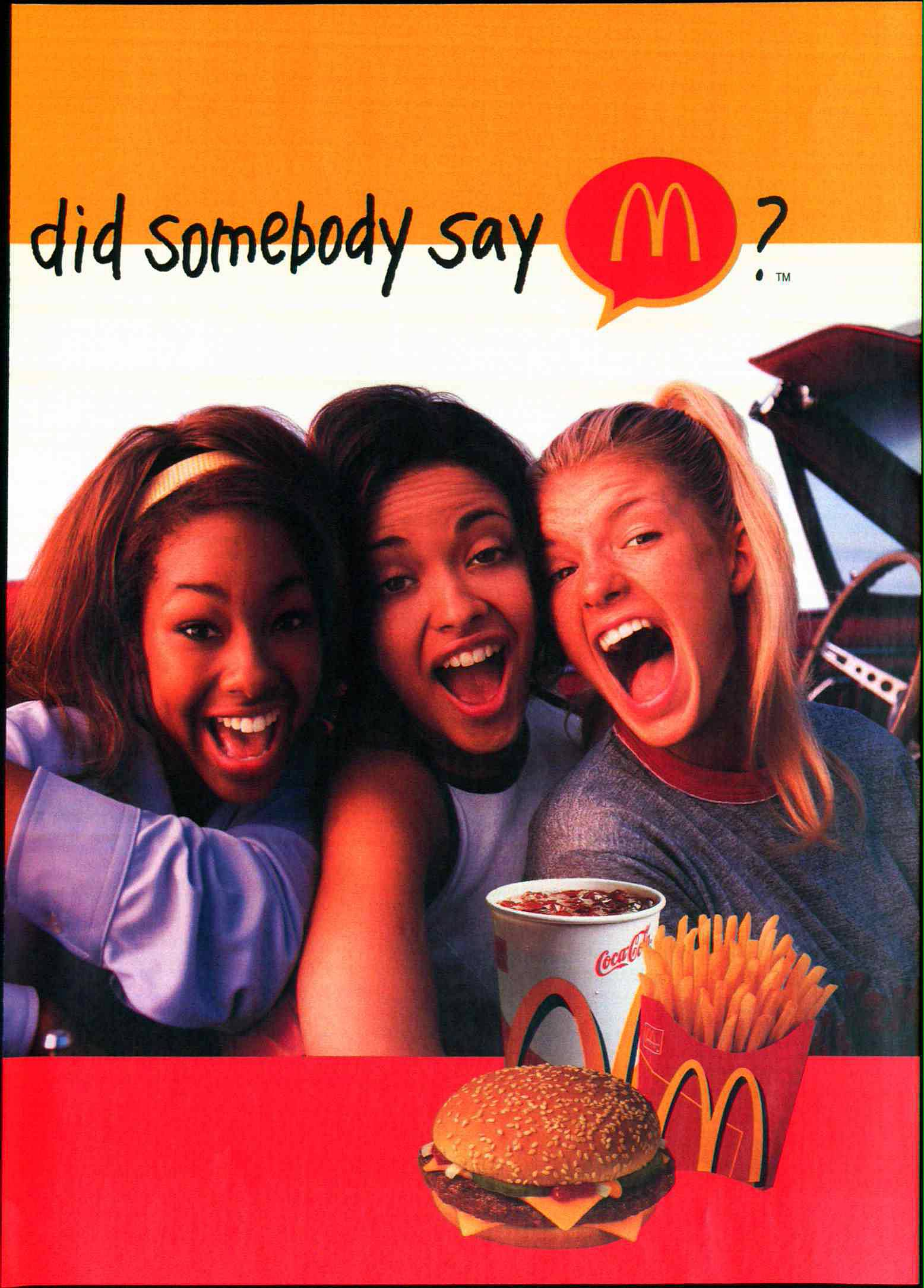
A It's unfortunate that the strong U.S. dollar has masked our real international growth over the past two years. In 1997, foreign currency translation reduced our reported international operating income growth rate by seven points. Foreign currency fluctuations affect earnings primarily because we translate international results into U.S. dollars for financial reporting. Since we reinvest our foreign earnings into our growing markets rather than repatriate them, the issue is primarily one of accounting rather than economics. Foreign currency fluctuation only has an economic impact when our markets import goods and services and we receive cash payments in the U.S. denominated in foreign currencies. We manage that impact several ways. We generally buy in the same currencies in which we sell our products, which creates a natural hedge. We finance our growth by borrowing in local currencies. We actively hedge selected currencies to reduce the effect of fluctuations on cash flows. Finally, our diverse operations in 109 markets and our long-term business approach help offset fluctuations over time.

**Q As a U.S. customer, I have more restaurant choices than ever before. How will McDonald's compete?**

A We have a clear vision of what we want McDonald's U.S.A. to be: the best. To achieve this vision, we've made several changes that address the heart of our business – delivering great Quality, Service, Cleanliness and Value. Our new "Made for You" food preparation system will allow us to serve hotter, fresher-tasting food. By realigning management and other resources, we've moved decision-making authority and accountability closer to the field. Our new advertising campaign reinforces the emotional bond people have with McDonald's and strengthens our brand. We're refining our core menu to better reflect our customers' tastes. And to support value pricing, we're continuing to reduce our restaurant operating costs – as a System, we saved over $450 million in the U.S. in the past three years through cost reduction and avoidance. Because these initiatives improve the very foundation of our business, they lay the groundwork for McDonald's U.S.A. for the future.

**Q McDonald's has always led the Standard & Poor's 500 and Dow Jones Industrial Average in total return to shareholders. However, for the second consecutive year, McDonald's significantly lagged these indices in 1997. How should I, as a shareholder, interpret this?**

A Creating shareholder value is critical to all of us at McDonald's. In fact, McDonald's System members own about 16 percent of our outstanding common stock. And we know our recent performance has not been up to our historically high standards. This annual report describes initiatives designed to improve our customers' experience and create more value for shareholders. I cannot tell you what the stock price will be. But I can tell you that I am encouraged by the direction our business is taking and I believe that McDonald's management is focused on the right priorities to propel our business forward.


did somebody say ?
TM
Coca-Cola

Leadership is not bestowed in perpetuity.
It must be earned every day.

# Creating and Managing our Cycle of Success

BARBARA KOSZYKOWSKA AND KATARZYNA KISIEL SERVE TO PERFECTION IN GDANSK, POLAND.

Leadership requires more than an unparalleled *past*, and more than accomplishments in the *present*. Leadership requires ongoing growth and innovation to shape the *future*.

McDonald's is the global food service leader. As such, we expect a great deal of ourselves . . . and we are not satisfied with past achievements or the status quo!

To extend our leadership position into the future, management must constantly satisfy customers; seize opportunities presented by constantly changing markets; and continually challenge the McDonald's System to do better.

Management is positioning the System to capitalize on our unique global strengths and is creating change designed to drive growth and increase shareholder value. In the following pages, we will examine some of the changes taking place to fortify our foundation and expand our "cycle of success."

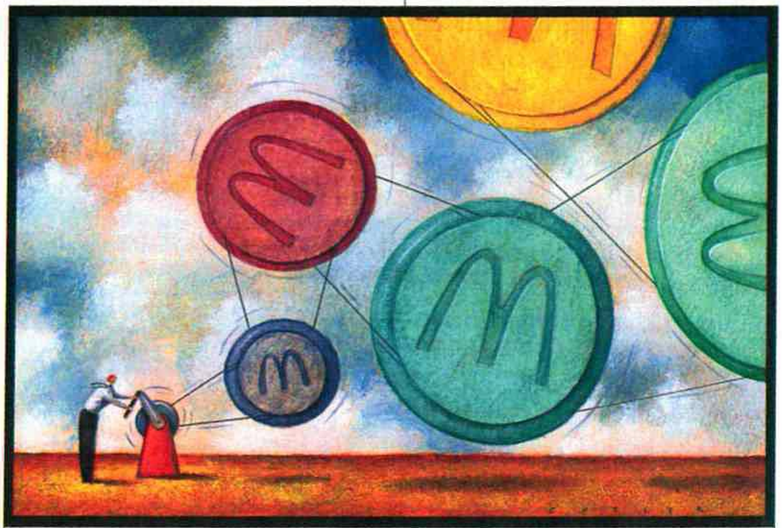
We manage our business as a portfolio of 109 countries in various stages of development and profitability... each creating a cycle of success for long-term growth in sales and profits.

Each cycle of success is built on a foundation of McDonald's management expertise. That expertise extends to the many aspects of our business – from site selection and restaurant development... to restaurant systems and financial management... to the most critical, our customers' experience.

When customers are pleased with their experience, they generate repeat sales, which foster expansion. Both, in turn, create economies of scale that translate into improved profits.

Those profits are then reinvested to deliver greater customer satisfaction through everyday low prices, promotions that add value to their experiences, and improved service. This further stimulates demand and results in sales growth.

Consider that today, within the U.S. – our most developed country – there are 46 McDonald's restaurants for every million people... and they generate $64 in annual sales per capita. Yet, there are, on average, less than three McDonald's restaurants for every million people in the countries we serve outside the U.S.... and per capita sales are only $4 each year. That difference represents a world of potential... and so the cycle continues.



**The true power of McDonald's cycle of success is that as increasing economies of scale are created by sales growth, levels of profitability increase as well.**

The true power of McDonald's cycle of success is that as increasing economies of scale are created by sales growth, levels of profitability increase as well.

For example, our 11 *major* markets – Australia, Brazil, Canada, England, France, Germany, Hong Kong, Japan, the Netherlands, Taiwan and the U.S. – have achieved the kind of market penetration and customer satisfaction that allows us to enjoy meaningful economies of scale today. Together these 11 countries generated 87 percent of our sales and 92 percent of our operating income in 1997.

Another 25 or so countries in our portfolio – nations such as Austria, New Zealand, Singapore and Sweden – represent profitable, *established* markets that have small populations and are fairly well penetrated.

Another group of about 25 countries is *emerging* markets for McDonald's. These are countries where we have been in operation for more than five years, and have relatively low penetration and significant near-term growth potential. They include Argentina, China, Italy, Mexico, the Philippines, Poland, Spain and Turkey. These countries are expected to grow much more rapidly than our established markets.

And then there are the more than three dozen *new* countries, where in many cases we are actually creating the quick-service restaurant (QSR) industry. These countries include those that opened within the past five years, such as Bolivia, Ecuador, Egypt, India, Saudi Arabia, South Africa and Ukraine.

We manage this portfolio of global businesses so that *new* and *emerging* countries steadily progress and improve their contribution to operating results. In fact, last year, these countries generated a 68 percent increase in their operating income!

Although we do not expect these countries to maintain this high a level of growth, management is focused on harnessing our unique strengths to continue the cycle and increase shareholder value.

It's a compelling story of people – franchisees, joint-venture partners, suppliers and employees – working as independent yet interdependent partners in the constant pursuit of a *culture of excellence* and *innovation* in delivering Quality, Service, Cleanliness and Value (QSC&V).

## Our reach encompasses the globe

In a business driven by impulse, convenience is paramount. So, McDonald's has created a worldwide restaurant development system that extends our brand's reach around the globe. We already have a significant convenience advantage over the competition, and our goal is to become even more convenient.

We're able to grow efficiently because of our efforts to lower the cost of building restaurants during the 1990s. We're also

using new tools that better analyze the customer dynamics of each trading area around the world to select the ideal location and size for each restaurant.

**Last year, we increased convenience with the addition of 2,110 restaurants, about 85 percent of which were outside the U.S. We expect to add a similar number this year.**

## Universal brand acceptance

McDonald's leadership position is powered by our universal appeal to customers around the world. The Golden Arches are a welcome sign to people from all walks of life and age groups.

We earned our reputation as one of the world's most powerful brands because of our consistency in delivering a customer experience that has value far beyond good food at a great price. We are a brand people know and trust.

Research indicates that customers feel a unique emotional bond with us – the prospect of a visit to McDonald's triggers a feeling of anticipation and excitement unlike any other restaurant.

Customers come to McDonald's for signature products they can't find anywhere else, such as Big Mac and Egg McMuffin sandwiches, Chicken McNuggets and our World Famous Fries.

In addition, many families visit our restaurants because of our unique ability to put smiles on their children's faces. Happy Meals combine wholesome food with a fun premium; Ronald McDonald is a special friend; PlayPlaces provide safe and fun recreation; and our alliance with The Walt Disney Company brings a little of the magic of Disney into our restaurants.

We differentiate ourselves with teens and adults by associating with sports events relevant to them. Affiliations with organizations such as the International Olympic Committee, the National Basketball Association, World Cup Soccer and NASCAR auto racing add to the excitement and enjoyment of their McDonald's experience.

Many also are drawn to McDonald's because of our unflagging support of our neighbors around the world. This begins with franchisee involvement in their communities and extends to Ronald McDonald House Charities.

And for some, the raising of the Golden Arches within their country's borders symbolizes a new freedom or an achievement of economic maturity.

But whatever the reason people visit our restaurants, it's our ability to consistently meet or exceed their expectations that creates loyalty. We call it "Food, Folks and Fun." And we nurture our brand through careful attention to all the details that contribute to our customers' experience.

**In 1998, we are extending our brand presence and reaching millions of customers through sponsorship of the World Cup Soccer championships in France and the Winter Olympic Games in Nagano, Japan. As worldwide sponsor of the Winter Games, the McDonald's restaurant in the Olympic Village served our familiar hometown taste to athletes from around the world.**

**McDonald's is also sponsoring the Dinoland exhibit at Disney's new Animal Kingdom in Florida and has two showcase restaurants on Disney's Orlando property.**

## Partners in leadership

Brand McDonald's attracts more than just billions of customers. It attracts quality employees, franchisees, joint-venture partners and suppliers.

More than 5,000 individual entrepreneurs own and operate McDonald's restaurants worldwide.

Maintaining a strong and healthy relationship with franchisees and affiliates has led to our recognition as the leading franchise organization by a number of independent sources.

Our continuing commitment to franchising is embodied in our unique two-way relationship with our diverse family of owner/operators. *Our* success is dependent on *their* success. We have always worked together to make their businesses successful – through menu management, operating system enhancements, training systems, marketing initiatives, purchasing efficiencies, etc.

In return, our franchisees help finance the growth of the brand. They share in the investment in new restaurants and

### JAPAN GROWS WITH VALUE

**McDonald's Japan has been using value to drive sales despite operating in a fiercely competitive market beset by economic problems.**

**By consistently building upon a value program featuring low prices since 1994, Japan has created a value rating that's 25 points higher than our closest QSR competitor.**

**Also, over the past three years, we have added more than 1,250 restaurants using a low-cost development approach, which incorporates small, convenient restaurants.**

**The result: of the major QSRs, we have about 40 percent of the restaurants and about 70 percent of the visits.**

# Working Together

**"I started working as a crew member for a McDonald's franchisee when I was 15. I knew then that this was where I wanted to be – working with quality people and keeping thousands of customers happy. I opened my first McDonald's in Hinesville, Georgia, in 1977. Today, I own and operate eight restaurants.**

**I am also the elected chairman of McDonald's National Operator Advisory Board, an organization which shares owner/operator perspectives on business issues with the Company. In essence, we provide the checks and balances that are critical to any successful organization.**

**The owner/operators and the Company work together – like no other franchise organization. Success is people – and I believe McDonald's has the greatest people in the business."**

***Gary Dodd***
*McDonald's Owner/Operator*
*Chairman,*
*National Operator Advisory Board*

leader
entrepreneur
partner

reinvest in existing restaurants. In addition, they contribute their full-time, hands-on efforts to satisfying their customers.

Indeed, franchisees have always been critically important in developing and testing innovations in products, marketing and production. Their customer-focused input and challenging attitude are integral to maintaining McDonald's leadership position.

**The men and women who are McDonald's owner/operators represent a real competitive advantage. They are the foundation of our success, and those who do the best job satisfying customers will continue to drive our growth.**

## Supplier network

Our global network of suppliers adds yet another dimension to McDonald's leadership position, providing an assured supply of high-quality products at competitive costs.

Our relationship with suppliers encompasses more than typical business arrangements.

They represent a proud tradition of innovation and research that improves our respective operations. More importantly, they provide dedicated production lines devoted to maintaining McDonald's strict food-safety and quality standards.

In many cases, suppliers invest their own capital by establishing operations to support McDonald's continued expansion. They expect that their businesses will grow as McDonald's grows.

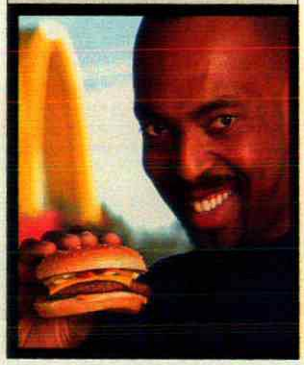
The Coca-Cola Company is a supplier which has contributed to our success around the world. Last year, McDonald's experienced a great loss with the passing of Roberto Goizueta, whose leadership and vision as chairman of Coca-Cola enhanced our relationship. We will miss him.

**WE'LL SERVE FOOD 'MADE FOR YOU'**

**Based on years of research and development and extensive testing, we're introducing the next generation of quality food preparation in our U.S. and Canadian restaurants... an innovation that will support our continued industry leadership into the next century.**

**The combination of advanced equipment, sophisticated computer technology and new operating procedures will enable us to deliver food, "Made for You," at the speed of McDonald's.**

**Customers say our food tastes even better with the new system, employees find their jobs are easier, and owner/operators enjoy greater operating efficiencies. We expect the new food preparation system to be in all our U.S. and Canadian restaurants by the year 2000.**



# McDonald's

**Our strengths are critical ingredients in our recipe for creating our cycle of success.**

**Our current leadership position is a result of more than four decades of innovation and hard work. But that's just the beginning.**

**We are well aware that leadership can only be maintained by constantly challenging the status quo and extending our reach.**

**That's why the future success of McDonald's is based on strategically managing our strengths and competitive advantages today to develop increasingly profitable positions in our global markets tomorrow.**

**The following overview of our geographic segments around the world indicates how we are doing just that.**

### UNITED STATES

McDonald's has a 32.5 percent share of top ten QSR visits in America. Yet, this represents less than seven percent of *total* eating-out sales.

To build more customer visits, McDonald's U.S.A. created five geographic operating divisions last year. Each division represents about $3.5 billion in sales generated by 2,200 to 2,800 restaurants.

While we continue to operate as a single brand and System throughout the country, each division is responsible, and accountable, for running its own business, including marketing, franchising, site development and restaurant operations.

### EUROPE

We are strengthening our leadership position in this culturally diverse geographic area by profitably delivering exceptional customer experiences at a good value.

For example, we're combating difficult economies in France and Germany with an emphasis on value. France is using a strong value message to increase customer visits, and recently added breakfast to the menu. As a result, even with the economic weakness, our performance there was strong last year. And to boost our value ratings in Germany, we've developed a comprehensive value strategy, which includes a special focus on Extra Value Meals.

In Poland, a value approach since the opening of our first restaurant five years ago has spurred high demand and rapid growth, and the country has been profitable since its first year of operation.

We face a range of challenges and opportunities within the region–from developing the market to its fullest in countries like Italy and Spain . . . to introducing our brand in new markets, like Ukraine.

# recipe for success


## ASIA/PACIFIC

We continue to see significant long-term growth potential in Asia/Pacific despite recent currency and market instability in some countries.

A strong value proposition has driven rapid sales gains in many markets, including Japan, Taiwan and the Philippines.

A large portion of China's 1.2 billion people can afford to visit McDonald's on a regular basis today, and as income levels continue to rise, a significantly larger portion of the population will be able to visit us frequently.

Also, construction costs decreased significantly throughout Asia/Pacific, as we expanded our presence with smaller restaurants, helping us maintain low prices, increase convenience and attract new customers.

Looking forward, our regional review boards expect to further leverage our size, reduce costs and share best practices in areas like restaurant development, purchasing and technology.

## LATIN AMERICA

Over the past several years, we have been taking advantage of the increased prosperity resulting from the stabilization of this area's historically volatile economies. In addition, we plan to increase our presence in Latin America to more than 2,000 restaurants by the end of the year 2000.

The McDonald's brand is powerful in this family-oriented culture. Our PlayPlaces and birthday parties are very popular, and family visits generally result in higher average checks.

Last year, Mexico introduced breakfast, with products spiced up with onions, tomatoes and jalapeños to satisfy the local palate.

As elsewhere, value is key. So, we are focused on becoming more efficient.

Last year, the System saved about $30 million on food, paper and distribution costs in Latin America, and we expect to save a similar amount this year through a continued focus on beef processing and distribution efficiencies.

In addition, we are successfully managing restaurant construction costs. Over the past three years, we reduced or avoided about $10 million in construction costs through design standardization, consolidation of suppliers and enhanced purchasing practices.

## OTHER

Rounding out McDonald's global presence are Canada, the Middle East and Africa. We opened in Canada, one of our 11 major countries, in 1967. On the other hand, our presence in the Middle East and Africa is mostly in new markets, which have great potential well into the 21st century.

# Supplier Shares Customer Focus

"As a supplier of liquid products, baked goods and distribution services, Golden West Foods has shared in McDonald's global growth. In fact, I've helped the liquid products division grow from supplying shake syrups, ice cream toppings and condiments to 100 McDonald's restaurants in the U.K. in 1983 to more than 3,000 throughout Europe today.

McDonald's expects us to know the details of their business–from strategies to day-to-day restaurant operations. They're always receptive to new ideas–indeed, they expect them!

Over the years, I participated on 15 "new-country teams," assuring that local suppliers in Russia, China, India and elsewhere were able to meet McDonald's extraordinary quality and consistency requirements from day one.

Golden West's global involvement is an inherent part of our long-term McDonald's relationship."

***Yaso Gunawardana***
*Managing Director*
*Liquid Products Division*
*Golden West Foods Limited*

**As expansion and increasing sales drive more volume through suppliers' facilities, we'll continue to achieve greater economies of scale. Our ongoing global purchasing and cost avoidance efforts saved the System more than $1 billion over the past five years, and will continue to allow us to control costs, supporting ongoing value for customers.**

## Restaurant support systems

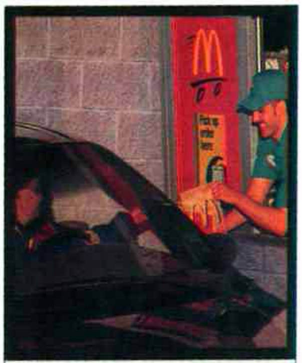
Attention to all aspects of QSC&V has played a major role in making McDonald's our customers' favorite QSR...and "faster, fresher, cleaner" continues to be our goal today.

McDonald's created the QSR business by developing an innovative production system that provided great-tasting food with speed and efficiency. Our more extensive menus in the U.S. and Canada have created a challenge and an opportunity to continue to innovate in this area. That's exactly what we are doing with our new food preparation system.

The drive-thru is another example of our operational expertise. It *seems* like we invented the drive-thru because we optimized the speed and accuracy of drive-thru service like no one else. We also introduced the drive-thru concept to a number of countries.

Now, we are building on our advantage as the fastest QSR drive-thru in America and expanding drive-thru service outside the U.S.

Today, all of our freestanding restaurants in South Africa feature face-to-face drive-thrus, which bring in 55 percent of their combined sales. In Australia, drive-thrus account for 52 percent of sales of restaurants with drive-thrus, and represent the majority of these restaurants' sales growth over the past few years. In Chile, our unrelenting focus on speed and accuracy resulted in a 50 percent increase in drive-thru sales this past year.



**BUILDING ON OUR LEAD IN DRIVE-THRU SPEED**

Faster drive-thru service means attracting more impulse customers who are looking for shorter lines.

If all our U.S. restaurants could add just 12 drive-thru transactions each day, it would equate to an additional $150 million in annual drive-thru sales for the System! In 1997, U.S. customers spent an average of 20 seconds less in our drive-thru after placing their order.

Now, our restaurants are beginning to implement a new, consistent signage package that brands and helps distinguish our drive-thru experience. We're also increasing advertising that accentuates our drive-thru speed, accuracy and convenience.

Another strength of our restaurant support systems is our training expertise. Simplified crew training techniques make us a leader in developing people's skills and abilities. We are creating the restaurant and entrepreneurial leaders of tomorrow in every country in which we operate.

**We are beginning to roll out a "Made for You" food preparation system in the U.S. and Canada, and we are building on our drive-thru advantage. In addition, we are working to develop a competitive advantage in the way we recruit, hire, train and retain the best people to manage our restaurants and serve our customers.**

## Menu management

We continually examine our menus around the world in light of changing customer tastes, as well as local customs. In addition to traditional favorites, such as the Big Mac and our golden fries, customers will find special menu offerings in some countries outside the U.S. Examples of this include the popular Teriyaki Burger in Japan and Vegetable Nuggets in India. Also, in a number of markets with large Muslim populations, such as Malaysia and many Middle Eastern countries, our menu is Halal, prepared in keeping with Muslim guidelines.

In the U.S., customers have been telling us that our menu needs some updating. So, our menu management team is revitalizing our core menu.

**We are reviewing our entire U.S. menu, and will make some changes this year. We will enhance the taste and price profiles of existing products with the goal of making them "best in class." Also, customers will see special product offerings across the U.S. as we employ local product promotions to meet the needs of different markets.**

**Internationally, we will continue to ensure our menu appeals to local tastes, lifestyles and cultural differences.**

## Leadership means value

We intend to build on McDonald's global food service leadership position to continue delivering value to customers – and shareholders.

As we leverage our experience and expertise in managing our growing portfolio of countries through the cycle of success, we expect to grow our market leadership, resulting in increasing profitability in each country we serve.

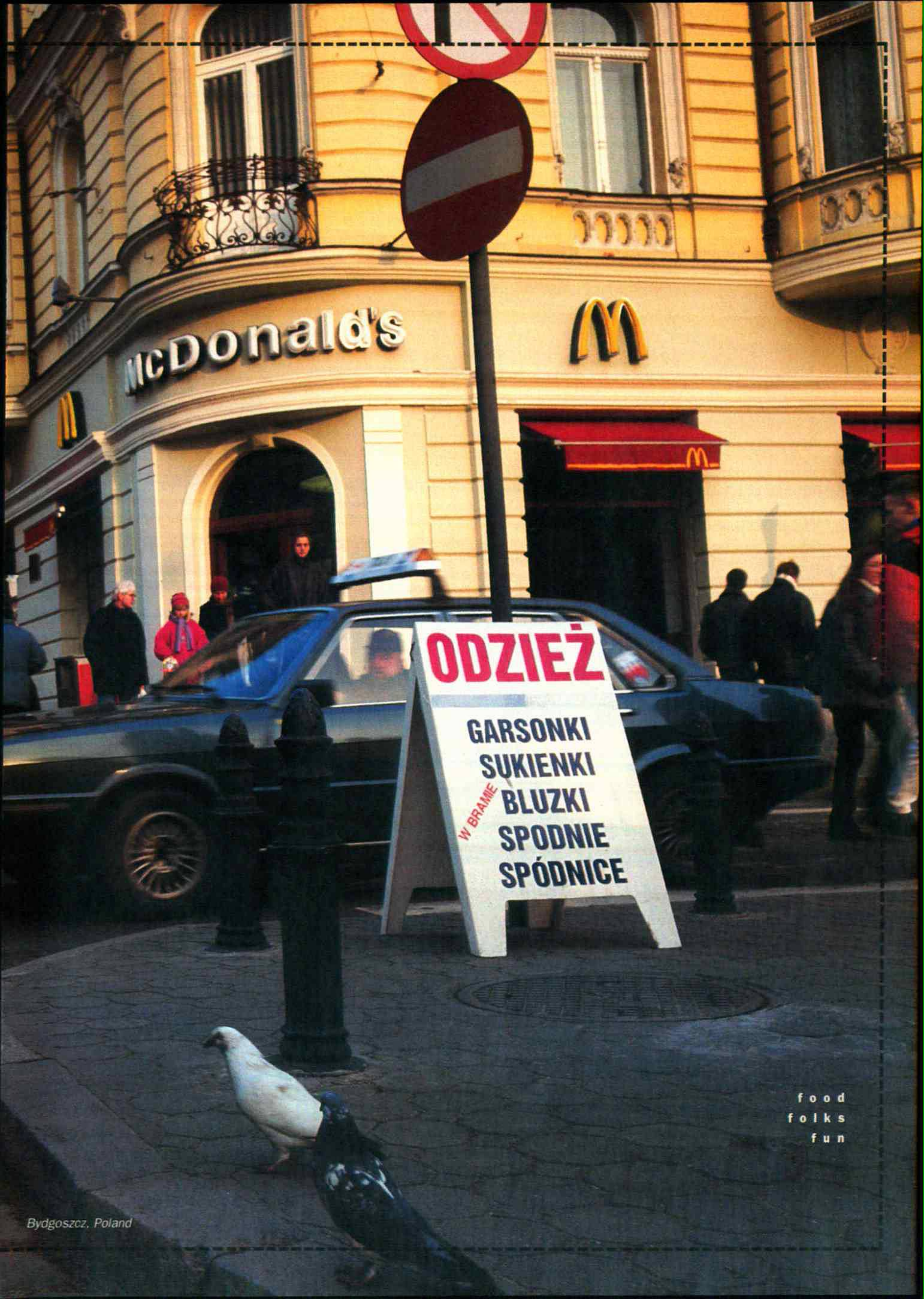
This growth, in turn, generates cash flow that we invest in our future. And the cycle begins again.

**Every year, millions of people venture forth on vacations to unfamiliar destinations, from nearby states and provinces to distant countries and continents.**

**Different people.**
**Unfamiliar surroundings.**
**New customs.**
**Strange money.**

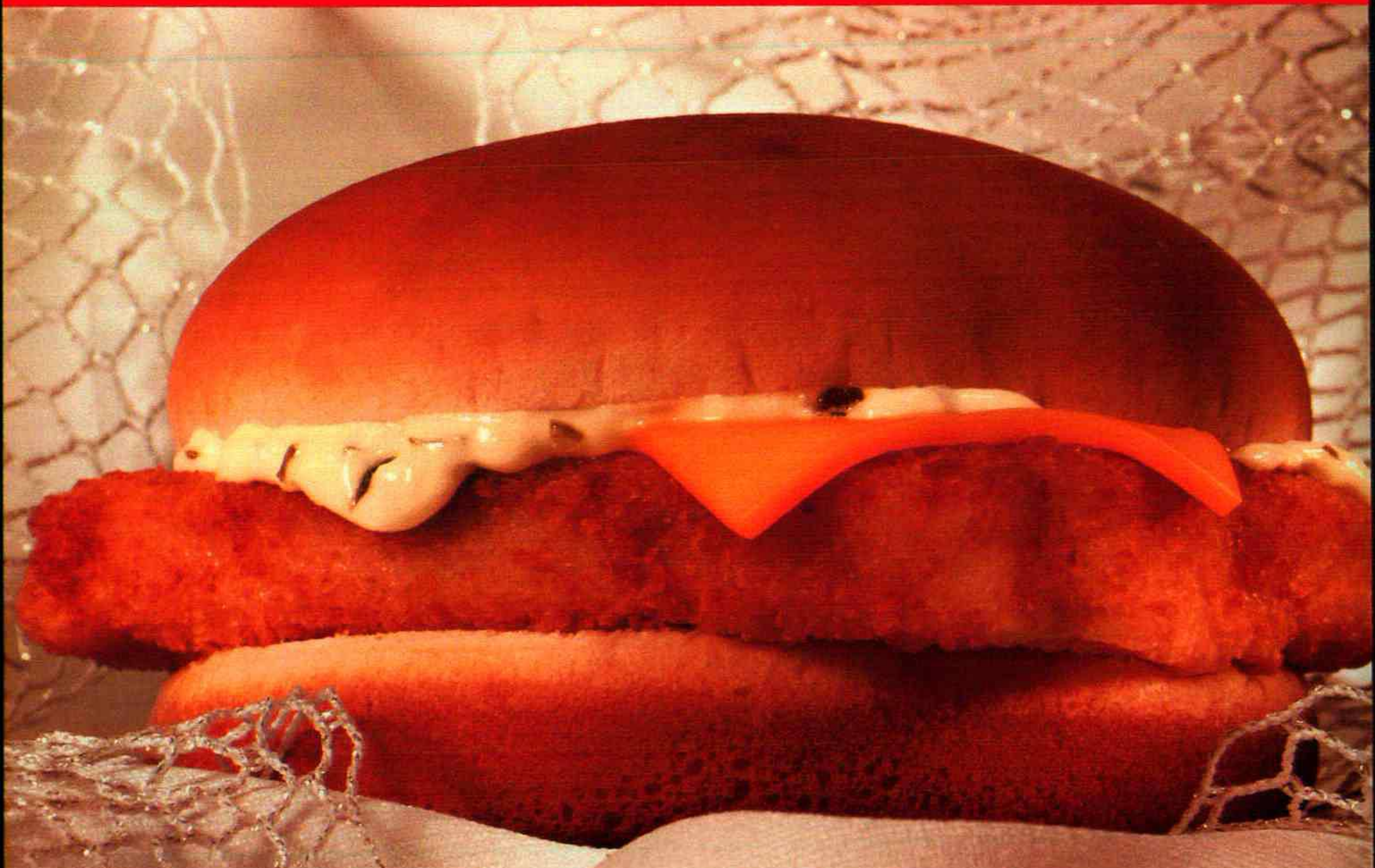
**But then, invariably, someone will shout in excitement: "Look – they have a McDonald's here, too!"**

**And suddenly, no one feels that far from home.**



Bydgoszcz, Poland

# Back By Demand!



*Your favorite Filet-O-Fish sandwich is back… bigger and better than ever! Crispy on the outside, tender and flaky on the inside. Plus, that famous, tangy tartar sauce with American Cheese!*

# FILET-O-FISH®

Now 33% more fish than the Original Filet-O-Fish!

*At participating restaurants.*

# Analyzing Financial Performance

## Consolidated operating results

**"We expect net income per common share growth in the range of 10 to 15 percent in each of the next five years, excluding foreign currency translation."**

*Mike Quinlan*
*Chairman and Chief Executive Officer*

The following table presents the changes in the Company's operating results for the years ended 1997 and 1996.

**Changes in operating results from prior year**

| (Dollars in millions, except per common share data) | 1997 Increase/(decrease) Amount | % | 1996 Increase/(decrease) Amount | % |
|---|---|---|---|---|
| **Systemwide sales** | **$1,826** | **6** | $1,898 | 6 |
| **Revenues** | | | | |
| Sales by Company-operated restaurants | **$ 566** | **7** | $ 707 | 10 |
| Revenues from franchised and affiliated restaurants | **156** | **5** | 185 | 6 |
| **Total revenues** | **722** | **7** | 892 | 9 |
| **Operating costs and expenses** | | | | |
| Company-operated restaurants | **486** | **8** | 616 | 11 |
| Franchised restaurants | **44** | **8** | 55 | 11 |
| Selling, general and administrative expenses | **84** | **6** | 130 | 11 |
| Other operating (income) expense–net | **(68)** | **n/m** | 60 | n/m |
| **Total operating costs and expenses** | **546** | **7** | 861 | 12 |
| **Operating income*** | **176** | **7** | 31 | 1 |
| Interest expense | **22** | **6** | 2 | 1 |
| Nonoperating (income) expense–net | **(2)** | **n/m** | (53) | n/m |
| **Income before provision for income taxes** | **156** | **7** | 82 | 4 |
| Provision for income taxes | **86** | **13** | (63) | (9) |
| **Net income** | **$ 70** | **4** | $ 145 | 10 |
| **Net income per common share** | **$ .14** | **6** | $ .24 | 12 |
| **Net income per common share–diluted** | **.13** | **6** | .23 | 12 |

** Excluding the 1996 asset impairment and special charges discussed on page 24, 1997 and 1996 operating income would have increased $88 million or 3%, and $119 million or 5%, respectively.*

*n/m=not meaningful*

### Restaurants

McDonald's continues to invest in the future through prudent and strategic expansion. In 1997, the Company added 2,110 restaurants Systemwide, compared with 2,642 in 1996 and 2,430 in 1995. In 1998, the Company plans to add a similar number of restaurants as were added in 1997, with a continued emphasis on full-menu traditional restaurants primarily in international locations.

| | 1997 | 1996 | 1995 | Ten years ago |
|---|---|---|---|---|
| U.S. | **12,380** | 12,094 | 11,368 | 7,567 |
| Europe | **3,886** | 3,283 | 2,595 | 753 |
| Asia/Pacific | **4,456** | 3,633 | 2,735 | 951 |
| Latin America | **1,091** | 837 | 665 | 99 |
| Other | **1,319** | 1,175 | 1,017 | 541 |
| Systemwide restaurants | **23,132** | 21,022 | 18,380 | 9,911 |

The U.S. expansion rate declined in 1997 partly due to the previously announced satellite restaurant closings. Additionally, U.S. traditional restaurant expansion slowed due to a more stringent selection process.

Asia/Pacific's percent of total restaurants has grown primarily due to Japan's significant expansion. Japan added 433 restaurants in 1997, 522 in 1996 and 313 in 1995, representing about 20% of Systemwide restaurants opened in 1997 and 1996, and 13% in 1995. About two-thirds of Japan's restaurant additions are smaller and have lower average development costs and lower average sales volumes than traditional restaurants. Therefore, these additions affect unit growth more than sales growth.

At the end of 1997, 85% of Systemwide restaurants were in the following 11 markets–Australia, Brazil, Canada, England, France, Germany, Hong Kong, Japan, the Netherlands, Taiwan and the U.S. (major markets). This compares with 88% for 1996. In 1997, 64% of restaurant additions were in these major markets, and we anticipate a similar percent for 1998. New and emerging markets like China, the Philippines, and the Africa/Middle East and Central Europe regions are expected to represent a greater percent of restaurant additions. Additionally, rapid expansion is expected to continue in Latin America.

| | 1997 | 1996 | 1995 | Ten years ago |
|---|---|---|---|---|
| Operated by franchisees | **14,265** | 13,428 | 12,217 | 6,760 |
| Operated by the Company | **5,000** | 4,357 | 3,816 | 2,399 |
| Operated by affiliates | **3,867** | 3,237 | 2,347 | 752 |
| Systemwide restaurants | **23,132** | 21,022 | 18,380 | 9,911 |

Franchisees and affiliates operated 78% of restaurants at year-end 1997. That percentage has remained relatively constant over the past three years.

About 80% of Company-operated restaurants and 90% of franchised restaurants were located in the major markets in 1997. Restaurants operated by affiliates were principally located in Argentina, Japan, Malaysia, the Philippines and the U.S.

Most of the satellite restaurants in operation were in Japan and the U.S.

## Systemwide sales

Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. Increasing market share and customer satisfaction through expansion, quality, service, cleanliness and value continue to be key strategic initiatives to build sales. Sales increases in 1997 and 1996 were primarily due to restaurant expansion worldwide, partly offset by weaker foreign currencies and, in 1996, negative comparable sales on a constant currency basis. In 1997, 87% of Systemwide sales were in the major markets, compared with 88% in 1996.

| *(In millions)* | 1997 | 1996 | 1995 |
|---|---|---|---|
| U.S. | **$17,125** | $16,370 | $15,905 |
| Europe | **7,835** | 7,377 | 6,685 |
| Asia/Pacific | **5,616** | 5,349 | 4,835 |
| Latin America | **1,511** | 1,273 | 1,129 |
| Other | **1,551** | 1,443 | 1,360 |
| Systemwide sales | **$33,638** | $31,812 | $29,914 |

In the U.S., sales increased primarily due to restaurant expansion. Despite a continuing competitive environment, comparable sales increased in 1997 reflecting successful marketing and promotions, including Chicken McNuggets, Monopoly and Teenie Beanie Babies, offset in part by disappointing results from Campaign 55. Comparable sales decreased in 1996 reflecting an extremely competitive U.S. operating environment.

In Europe, sales increases in 1997 were driven by expansion and higher constant currency comparable sales in England, Italy, the Netherlands and Spain. The 1996 acquisition of about 80 Burghy restaurants supported Italy's impressive sales growth. In addition, although the economy was weak in France, our constant currency comparable sales increased in 1997. These results were partly offset by lower comparable sales in Germany where economic conditions were also weak.

In Asia/Pacific, the Philippines and Taiwan had strong sales increases in 1997, driven by Extra Value Meal marketing campaigns and restaurant expansion, despite difficult economic conditions in the latter part of the year.

Brazil contributed one-third of Latin America's total sales growth in 1997, due to accelerated expansion. Higher constant currency comparable sales and expansion were the primary drivers of significant sales growth in Argentina, Mexico, Puerto Rico and Venezuela.

Sales by Company-operated restaurants grew at a higher rate than Systemwide sales in 1997 and 1996, primarily due to the higher unit growth rate of Company-operated restaurants outside the U.S. relative to Systemwide restaurants. In addition, the weakening Japanese Yen had a significant negative effect on our Japanese affiliate's sales, which dampened Systemwide sales growth.

| *(In millions)* | 1997 | 1996 | 1995 | Ten years ago |
|---|---|---|---|---|
| Operated by franchisees | **$20,863** | $19,969 | $19,123 | $ 9,452 |
| Operated by the Company | **8,136** | 7,571 | 6,863 | 3,667 |
| Operated by affiliates | **4,639** | 4,272 | 3,928 | 1,211 |
| Systemwide sales | **$33,638** | $31,812 | $29,914 | $14,330 |

While U.S. comparable sales were slightly positive in 1997, average annual sales at U.S. restaurants in operation at least 13 consecutive months declined slightly to $1,425,000. Average sales are affected by several factors: comparable sales, the size of new restaurants and the expansion rate. Expansion affects average sales as new restaurants historically have taken about four years to reach long-term volumes.

While international constant currency comparable sales declined only slightly in 1997, average annual sales at restaurants in operation at least 13 consecutive months decreased $327,000 to $1,830,000. Nearly half of this decline was due to foreign currency translation. An additional 30% was due to more satellite restaurants which typically have significantly lower sales volumes than traditional restaurants. Finally, average sales have trended lower as we have accelerated expansion and opened more restaurants in lower density areas and countries with lower average sales. Generally, our investment costs are lower for restaurants with lower sales volumes.

## Total revenues

Total revenues include sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees include rent, service fees and royalties that are based on a percent of sales with specified minimum payments along with initial fees. Fees vary by type of site and investment by the Company, and also according to local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise agreements that generally have 20-year terms.

Revenues grow as new restaurants are added and as sales build in existing restaurants. Menu price changes also affect revenues and sales, but it is impractical to quantify their impact because of different pricing structures, new products, promotions and product mix variations among restaurants and markets.

Revenues increased at a faster rate than Systemwide sales in 1997 and 1996. This was primarily due to the weakening Japanese Yen, which negatively affected sales more than revenues due to our affiliate structure in Japan, and the higher growth rate in Company-operated versus franchised restaurants.

**U.S. operating results**

| (In millions) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales by Company-operated restaurants | **$2,691** | $2,776 | $2,725 | $2,550 | $2,420 |
| Revenues from franchised and affiliated restaurants | **1,912** | 1,814 | 1,749 | 1,606 | 1,511 |
| **Total revenues** | **4,603** | 4,590 | 4,474 | 4,156 | 3,931 |
| **Operating costs and expenses** | | | | | |
| Company-operated restaurants | **2,246** | 2,317 | 2,244 | 2,066 | 1,977 |
| Franchised restaurants | **361** | 334 | 304 | 270 | 247 |
| Selling, general and administrative expenses | **788** | 740 | 682 | 628 | 569 |
| Other operating (income) expense–net | **(3)** | 55* | (8) | (25) | (18) |
| **Total operating costs and expenses** | **3,392** | 3,446* | 3,222 | 2,939 | 2,775 |
| **U.S. operating income** | **$1,211** | $1,144* | $1,252 | $1,217 | $1,156 |

*Includes the $72 million special charge.*

U.S. revenues increased $13 million in 1997 and $116 million in 1996. The slower revenue growth in 1997 was primarily because the number of U.S. Company-operated restaurants decreased over the past year, while the number of franchised and affiliated restaurants increased. Lower initial fees resulting from fewer openings also contributed to the slower revenue growth.

In 1997, Europe accounted for 34% of consolidated revenues. This region's revenues grew $318 million in 1997, compared with growth of $391 million in 1996. In 1997, the growth was primarily driven by strong sales in England, Italy and Russia.

Asia/Pacific's revenues grew $250 million and $262 million in 1997 and 1996, respectively. In 1997, the consolidation of Singapore, due to increased ownership, along with continued strong results in Taiwan, helped to advance revenues. Difficult economic conditions in certain markets during the latter half of 1997 dampened this increase.

Latin America's revenues grew $114 million in 1997 and $89 million in 1996. The 1997 growth was primarily due to accelerated expansion in Brazil and Chile's ownership change from an affiliate to a wholly-owned subsidiary.

**Operating results outside the U.S.**

| (In millions) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales by Company-operated restaurants | **$5,445** | $4,795 | $4,139 | $3,242 | $2,737 |
| Revenues from franchised and affiliated restaurants | **1,361** | 1,301 | 1,182 | 923 | 740 |
| **Total revenues** | **6,806** | 6,096 | 5,321 | 4,165 | 3,477 |
| **Operating costs and expenses** | | | | | |
| Company-operated restaurants | **4,404** | 3,846 | 3,304 | 2,579 | 2,188 |
| Franchised restaurants | **253** | 236 | 211 | 165 | 133 |
| Selling, general and administrative expenses | **601** | 574 | 507 | 408 | 335 |
| Other operating (income) expense–net | **(111)** | (101)* | (98) | (59) | (44) |
| **Total operating costs and expenses** | **5,147** | 4,555* | 3,924 | 3,093 | 2,612 |
| **Operating income outside the U.S.** | **$1,659** | $1,541* | $1,397 | $1,072 | $ 865 |

*Includes the $16 million asset impairment charge.*

## Company-operated margins

Company-operated margins equal sales by Company-operated restaurants less the operating costs of these restaurants. Consolidated Company-operated margins were 18.3% of sales in 1997, 18.6% in 1996 and 19.2% in 1995. Operating cost trends as a percent of sales were as follows: food & paper costs increased in 1997 and decreased in 1996; payroll costs decreased in 1997 and were relatively flat in 1996; and occupancy & other operating costs increased in both years.

U.S. Company-operated margins were 16.5% of sales in 1997 and 1996, and 17.7% in 1995. Stable margins as a percent of sales in 1997 reflected higher food & paper costs related primarily to the Deluxe Line, lower payroll costs related to enhanced labor efficiencies and lower occupancy & other operating costs. The decline in the margin as a percent of sales in 1996 was driven by higher payroll costs, primarily due to increases in average hourly rates, and higher occupancy & other operating costs, partly offset by lower food & paper costs.

Outside the U.S., Company-operated margins were 19.1% of sales in 1997, compared with 19.8% in 1996 and 20.2% in 1995. In 1997, increases in food & paper costs as well as occupancy & other operating costs as a percent of sales offset a decrease in payroll costs. The decline in the 1996 margin as a percent of sales was due to an increase in occupancy & other operating costs, while food & paper costs and payroll costs were flat.

## Franchised margins

Franchised margin dollars equal revenues from franchised and affiliated restaurants less the Company's occupancy costs (rent and depreciation) associated with these sites. Franchised margin dollars represented about two-thirds of the combined operating margin in both 1997 and 1996.

Consolidated franchised margins were 81.2% of applicable revenues in 1997, 81.7% in 1996 and 82.4% in 1995. Franchised margins in the U.S. were 81.1% of revenues in 1997, 81.6% in 1996 and 82.6% in 1995. Outside the U.S., franchised margins were 81.4% of revenues in 1997, 81.8% in 1996 and 82.1% in 1995.

Franchised margins as a percent of applicable revenues declined in 1997 and in 1996, primarily due to a higher proportion of leased sites. For leased sites, financing costs implicit in the lease are included in rent expense, which affects these margins; for owned sites, financing costs are reflected in interest expense, which does not affect these margins. The 1997 decline in the U.S. franchised margin also reflected lower initial fees resulting from fewer openings, and rent adjustments.

Franchised margins include revenues from restaurants operating under business facilities lease arrangements, net of the Company's expenses for these sites. Under these arrangements, the Company leases the businesses, including equipment, to franchisees who have options to purchase the businesses. Higher fees are charged, but margin percentages are generally lower because of equipment depreciation. The Company is compensated for lower margins by the subsequent gains realized from the exercise of purchase options, accounted for as

other operating income. There were 729 restaurants operating under such arrangements at year-end 1997, compared with 627 in 1996 and 491 in 1995.

## Selling, general and administrative expenses

Increases in selling, general and administrative expenses in 1997 and 1996 were primarily due to strategic global spending to support value initiatives, execution strategies and restaurant development, offset in part by weaker foreign currencies. The spending included continued investment in developing countries and support of special marketing efforts and new food initiatives in the U.S. While expenses have been relatively constant as a percent of Systemwide sales at 4.3% in 1997 and 1996, and 4.1% in 1995, our goal is to reduce expenses as a percent of sales.

## Other operating (income) expense–net

Other operating (income) expense–net includes gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, net gains or losses from property dispositions and other transactions related to the food service business.

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements. The Company's purchase and sale of businesses with its franchisees and affiliates is aimed at achieving an optimal ownership mix in each market. These transactions are an integral part of our franchising business and resulting gains are recorded in operating income.

Equity in earnings of unconsolidated affiliates–businesses the Company actively participates in, but does not control–is reported after interest expense and income taxes, except for U.S. restaurant partnerships, which are reported before income taxes.

Net gains or losses from property dispositions result from disposals of properties due to restaurant closings, relocations and other transactions.

The increase in other operating income in 1997 was principally due to the 1996 $16 million asset impairment charge related to certain restaurant sites in Mexico and the 1996 $72 million special charge. The special charge related primarily to plans to strengthen the U.S. business and reduce ongoing costs by closing approximately 115 low-volume U.S. satellite restaurants, replacing certain restaurant equipment, outsourcing excess property management and implementing other cost efficiencies.

Equity in earnings of unconsolidated affiliates declined in 1997 and 1996 due to the weakening Japanese Yen and increased ownership of certain foreign markets, changing their classification from affiliates to majority or wholly-owned subsidiaries. Additionally in 1997, gains on sales of restaurant businesses were lower, whereas in 1996, they were higher than the previous year. Lower provisions for property dispositions increased other operating income in 1996, compared with 1995.

## Operating income

Operating income increased $176 million or 7% to $2.8 billion in 1997, and $31 million or 1% to $2.6 billion in 1996. Excluding the 1996 asset impairment and special charges, operating income increased 3% in 1997 and 5% in 1996. The increases in 1997 and 1996 were due to higher combined operating margin dollars, offset in part by weaker foreign currencies, higher selling, general and administrative expenses, and in 1997, lower gains on sales of restaurant businesses.

In 1997, 92% of operating income was from the major markets, compared with 94% in 1996.

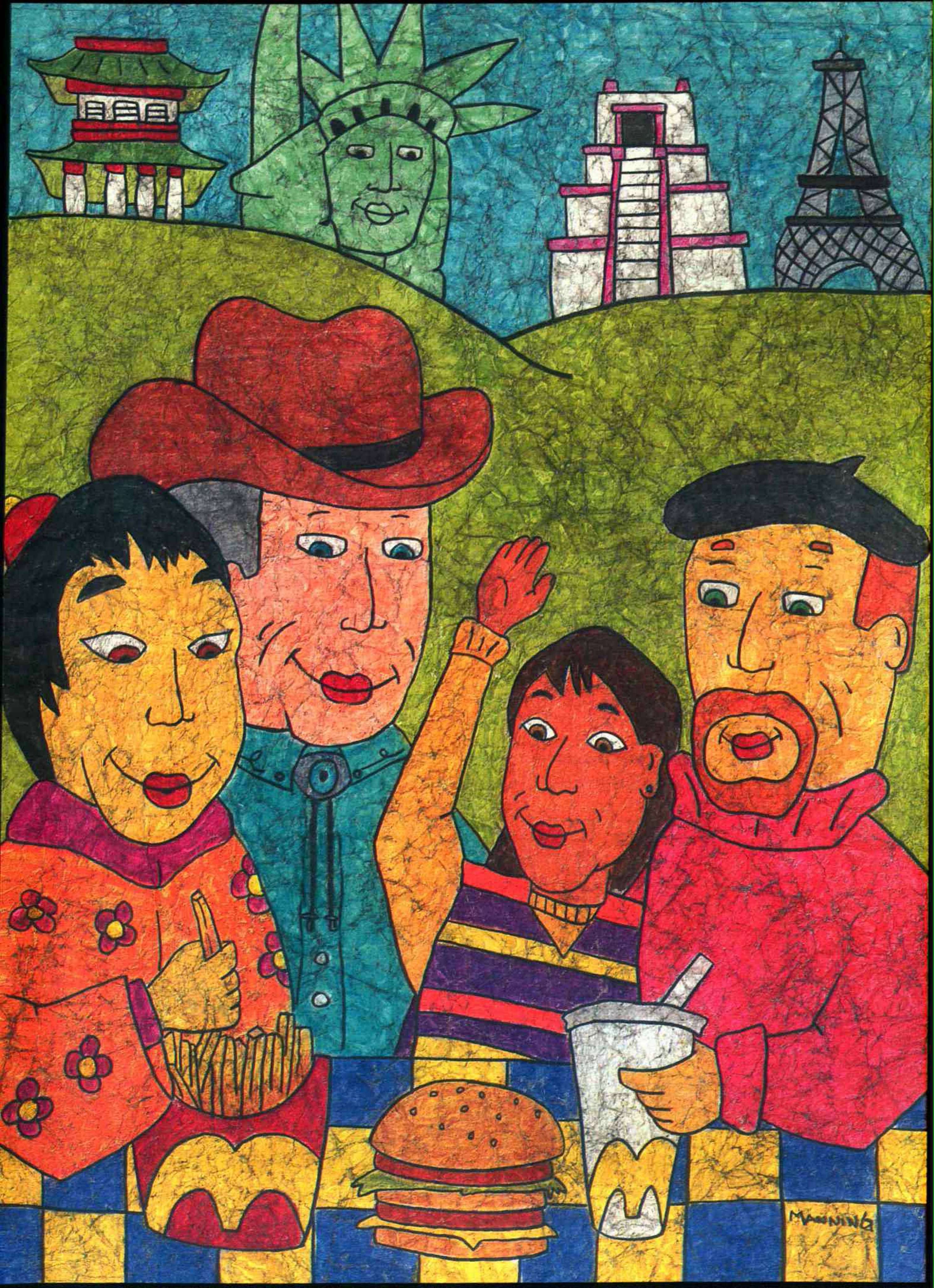
U.S. operating income rose $67 million or 6% in 1997 and decreased $108 million or 9% in 1996. Excluding the 1996 special charge, U.S. operating income was flat in 1997 and decreased 3% in 1996. In 1997, higher U.S. franchised margin dollars were offset by lower Company-operated margin dollars and higher selling, general and administrative expenses. In 1996, higher U.S. franchised margin dollars only partly offset lower Company-operated margin dollars and higher selling, general and administrative expenses.

Outside the U.S., operating income rose $118 million or 8% in 1997 and $144 million or 10% in 1996. This growth was driven by higher combined operating margin dollars resulting from expansion in 1997 and 1996. In both years, weaker foreign currencies and higher selling, general and administrative expenses partly offset these increases. In 1997, the Deutsche Mark, French Franc and Japanese Yen were the primary currencies affecting reported results. Additionally, 1996 results were negatively impacted by the $16 million asset impairment charge related to certain restaurant sites in Mexico.

In 1997, Europe accounted for 36% of consolidated operating income. Europe's operating income grew $54 million in 1997 and $115 million in 1996. Weaker currencies offset this region's operating income increase in 1997 by 9% or $82 million, and by 4% or $30 million in 1996. Strong operating results in England, Italy, Spain and Sweden, as well as in France in the last half of the year, drove the increase in operating income in 1997. Difficult economies, primarily in Germany, contributed to the decline in the growth rate in 1997. England, France and Germany accounted for 77% of Europe's operating income in 1997, compared with 80% in 1996.

Asia/Pacific's operating income grew $14 million in 1997 and $46 million in 1996. Weaker currencies offset this region's operating income increase in 1997 by 7% or $24 million, and by 2% or $5 million in 1996. Difficult economic conditions in many of the markets during the second half of the year contributed to the decline in growth in 1997. This was partly offset by strong operating results in Taiwan and the Philippines, and the change in ownership of our Singapore operations. Australia, Hong Kong, Japan and Taiwan contributed about 90% of Asia/Pacific's operating income in both years.

Latin America's operating income increased $37 million in 1997 and decreased $3 million in 1996, excluding the $16 million asset impairment charge for Mexico in 1996. Continued expansion of the restaurant base, as well as an increase in constant currency comparable sales, drove improved results across this segment.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### Interest expense

Higher average debt levels, partly offset by weaker foreign currencies and lower average interest rates, accounted for the 1997 and 1996 increases in interest expense.

### Nonoperating (income) expense–net

Nonoperating (income) expense–net includes interest income, gains and losses related to other investments and financings, and miscellaneous income and expense. In 1997, interest income and translation gains were lower than in 1996. In 1996, translation gains were higher than in 1995. Additionally, this category included losses of $22 million in 1996 and $60 million in 1995 associated with the reduction of the carrying value of the Company's investment in Discovery Zone common stock to zero.

### Provision for income taxes

The effective income tax rate was 31.8% for 1997, compared with 30.1% for 1996 and 34.2% for 1995. A $50 million tax benefit resulting from certain international transactions was primarily responsible for the unusually low rate in 1996. The Company expects its 1998 effective income tax rate to be in the range of 32.5% to 33.5%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $451 million in 1997 and $305 million in 1996. Substantially all of the tax assets arose in the U.S. and other profitable markets, and a majority of them are expected to be realized in future U.S. income tax returns.

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### Net income and net income per common share

Net income increased 4% in 1997, while net income per common share and net income per common share on a diluted basis increased 6%. In 1996, net income increased 10%, while net income per common share and net income per common share on a diluted basis increased 12%. The spread between the percent increases in net income and net income per common share in each year reflected the positive effects of share repurchases and lower preferred dividends compared with the prior year.

### Impact of changing foreign currencies

The following table presents the reported results for 1997 and 1996 compared with those results translated at the respective prior year rates:

| *(Dollars in billions, except per common share data)* | As reported | | | | As adjusted | | | |
|---|---|---|---|---|---|---|---|---|
| | **1997** | | 1996 | | **1997** | | 1996 | |
| Systemwide sales | **$33.6** | **6%** | $31.8 | 6% | **$35.0** | **10%** | $32.4 | 8% |
| Revenues | **11.4** | **7** | 10.7 | 9 | **11.8** | **11** | 10.8 | 10 |
| Operating income | **2.8** | **7** | 2.6 | 1 | **2.9** | **11** | 2.7 | 3 |
| Net income | **1.6** | **4** | 1.6 | 10 | **1.7** | **8** | 1.6 | 11 |
| Net income per common share | **2.35** | **6** | 2.21 | 12 | **2.43** | **10** | 2.23 | 13 |
| Net income per common share–diluted | **2.29** | **6** | 2.16 | 12 | **2.37** | **10** | 2.17 | 13 |

## Financial position and capital resources

**"FREE CASH FLOW–CASH FROM OPERATIONS LESS CAPITAL EXPENDITURES–GREW TO $331 MILLION IN 1997 FROM $86 MILLION IN 1996."**

*Mike Conley*

*Executive Vice President and Chief Financial Officer*

### Total assets and capital expenditures

Total assets grew $856 million or 5% in 1997, and $2 billion or 13% in 1996. In 1997 and 1996, 81% of consolidated assets were located in our major markets excluding our affiliate Japan. Net property and equipment rose $609 million in 1997 and represented 82% of total assets at year end.

Capital expenditures decreased $264 million or 11% in 1997, reflecting fewer restaurant additions combined with weaker foreign currencies. In 1997, approximately 73% of capital expenditures was invested in our major markets excluding Japan, compared with 78% in 1996. U.S. capital expenditures

declined $300 million in 1997, while capital expenditures outside the U.S. increased slightly. In 1997, 72% of capital expenditures was invested in markets outside the U.S., compared with 63% in 1996 and 56% in 1995.

| (In millions) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| New restaurants | **$ 1,531** | $ 1,799 | $ 1,550 | $ 1,181 | $ 925 |
| Existing restaurants | **433** | 350 | 355 | 211 | 211 |
| Other properties | **147** | 226 | 159 | 147 | 181 |
| Capital expenditures | **$ 2,111** | $ 2,375 | $ 2,064 | $ 1,539 | $ 1,317 |
| Total assets | **$18,242** | $17,386 | $15,415 | $13,592 | $12,035 |

Expenditures for existing restaurants were made to achieve higher levels of customer satisfaction, implement technology to improve service and food quality, and enhance older facilities. The increase in capital expenditures for existing restaurants in 1997 was primarily due to additional remodels and rebuilds of certain older restaurants.

Other properties primarily included expenditures for office buildings and related computer equipment and furnishings.

In the U.S., average development costs for traditional restaurants, which include land, building and equipment costs, increased in 1997 to $1,290,000, compared with $1,176,000 in 1996 and $1,151,000 in 1995. The increases were primarily due to higher site development and preparation costs.

Average development costs for traditional restaurants in our major markets outside the U.S., excluding Japan, were approximately $1.8 million in 1997. Average costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs are managed through the use of smaller restaurants in some countries, construction and design efficiencies, standardization and global sourcing.

The Company intends to continue managing development costs relative to sales volumes through greater economies of scale globally and through co-branded oil locations, primarily in the U.S. Our objective is to profitably expand, consistent with our goal of increasing market share, and achieve greater marketwide presence throughout the world. Accordingly, the Company will continue to investigate opportunities to employ capital in its U.S. business most effectively. The trend in the U.S. is to lease more sites. Outside the U.S., property is purchased when legally and economically feasible; otherwise, long-term leases are used. Including affiliates, total real estate ownership was 45% and 48% at year-end 1997 and 1996, respectively.

Capital expenditures made by affiliates – which were not included in consolidated amounts – were approximately $360 million in 1997, compared with $410 million in 1996. The decrease was partly due to weaker foreign currencies and our increased ownership in Chile and Singapore, converting them from affiliates to majority or wholly-owned subsidiaries. Expansion in Argentina, Japan, Korea, the Philippines and Sweden continued to drive affiliate capital expenditures.

## Cash provided by operations

The Company generates significant cash from operations and has substantial borrowing capacity to meet its operating and discretionary spending requirements. Free cash flow grew to $331 million in 1997, compared with $86 million in 1996. Cash provided by operations decreased slightly in 1997, primarily due to the one time refund of U.S. franchisee security deposits of approximately $110 million. Excluding the effect of the refunds, cash provided by operations increased $91 million or 4%. Cash provided by operations, along with other sources of cash such as borrowings, was used principally for capital expenditures, debt repayments, share repurchase and dividends. Cash provided by operations exceeded capital expenditures in 1997 for the seventh consecutive year and is expected to more than cover capital expenditures over the next several years.

| (Dollars in millions) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Cash provided by operations | **$2,442** | $2,461 | $2,296 | $1,926 | $1,680 |
| Free cash flow | **331** | 86 | 233 | 388 | 363 |
| Cash provided by operations as a percent of capital expenditures | **116%** | 104% | 111% | 125% | 128% |
| Cash provided by operations as a percent of average total debt | **41** | 48 | 49 | 48 | 44 |

In addition to its free cash flow, the Company can meet short-term needs through commercial paper borrowings and line of credit agreements. Accordingly, the Company maintains a relatively low current ratio – .38 at year-end 1997.

## Financings and market risk

The Company is exposed to the impact of interest rate changes and foreign currency fluctuations. McDonald's strives to minimize these risks by financing with debt in the currencies in which assets are denominated and employing established policies and procedures to manage this exposure. See page 37 for additional information.

The Company uses major capital markets and various techniques to meet its financing requirements and reduce interest expense. For example, currency exchange agreements in conjunction with borrowings help obtain desired currencies at attractive rates and maturities. Interest-rate exchange agreements effectively convert fixed-rate to floating-rate debt, or vice versa. We also manage the level of fixed-rate debt to take advantage of changes in interest rates.

The Company uses foreign currency debt to hedge intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on net income and shareholders' equity. Total foreign-denominated debt, including the effects of currency exchange agreements, was $5.0 billion and $4.9 billion at year-end 1997 and 1996, respectively.

| (As a percent) | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Fixed-rate debt as a percent of total debt | **49%** | 68% | 67% | 64% | 77% |
| Weighted-average annual interest rate of total debt | **6.8** | 7.1 | 7.9 | 8.4 | 9.1 |
| Foreign currency-denominated debt as a percent of total debt | **80** | 90 | 89 | 92 | 86 |
| Total debt as a percent of total capitalization (total debt and total shareholders' equity) | **42** | 39 | 38 | 39 | 37 |

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Duff & Phelps began rating the debt in 1990 and currently rates it AA+. These strong ratings are important to the Company because of our global development plans. The Company has not experienced, nor does it expect to experience, difficulty obtaining financing or refinancing existing debt. At year-end 1997, the Company and its subsidiaries had $1.5 billion available under committed line of credit agreements and $1.0 billion under shelf registrations for future debt issuance. In January 1998, the Company issued $150 million Debentures at 6.38% due 2028 and $200 million Medium Term Notes at 5.95% due 2008 under the shelf registrations.

The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt; terminating exchange agreements; and using derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes. All exchange agreements are over-the-counter instruments.

The Company actively hedges selected currencies to minimize the effect of fluctuating foreign currencies on reported results and to minimize the cash exposure of foreign currency royalty and other payments received in the U.S. In addition, where practical, McDonald's restaurants purchase goods and services in local currencies resulting in natural hedges, and the Company typically finances in local currencies, creating economic hedges.

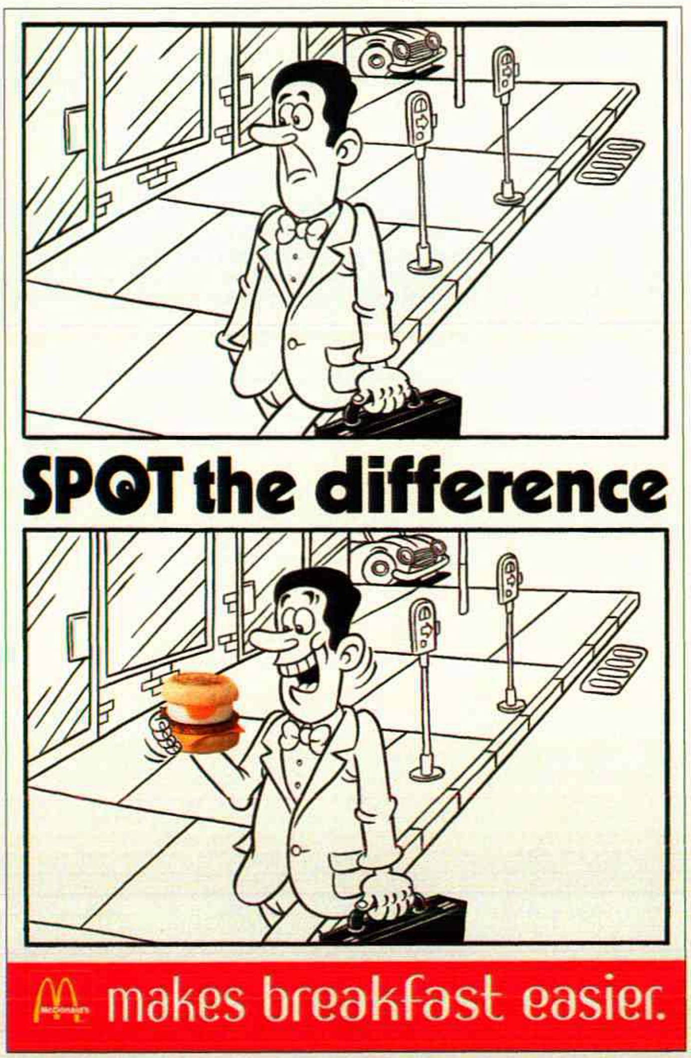
The Company's exposure is diversified among a broad basket of currencies. At year-end 1997 and 1996, assets in hyperinflationary markets were principally financed in U.S. Dollars. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) were as follows:

| *(In millions of U.S. Dollars)* | December 31, **1997** | 1996 |
|---|---|---|
| British Pounds Sterling | **$590** | $394 |
| Canadian Dollars | **528** | 393 |
| Australian Dollars | **298** | 309 |
| Brazilian Reais* | **281** | |
| French Francs | **194** | 179 |
| Hong Kong Dollars | **144** | 112 |
| Austrian Schillings | **91** | 88 |

**Brazil was considered a hyperinflationary market at December 31, 1996.*

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on sales levels or local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received in the U.S. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from year-end 1997 levels nor a 10% adverse change in foreign currency rates from year-end 1997 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

*Advertisement from England.*




## Total shareholders' equity

Total shareholders' equity rose $133 million or 2% in 1997, and represented 49% of total assets at year end. Weaker foreign currencies decreased shareholders' equity by $295 million in 1997.

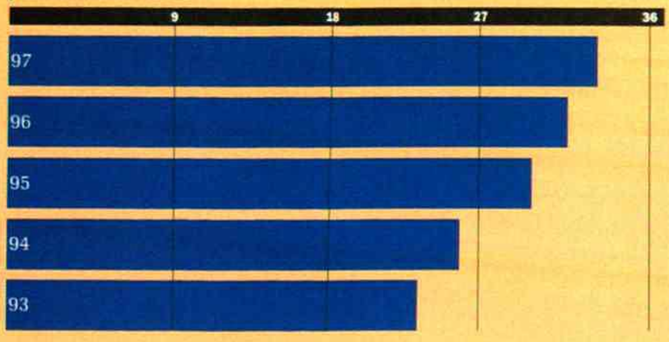
One way to enhance common shareholder value is by using free cash flow and debt capacity to repurchase shares. Since 1987, the Company has invested $3.8 billion to buy back 146 million shares at an average price of approximately $26, while maintaining a strong equity base. At year-end 1997, the Company held 145 million shares in treasury with a market value of $6.9 billion.

In January 1996, the Company announced plans to repurchase $2.0 billion of its common stock by year-end 1998. As of

Management is optimistic about our long-term opportunities to grow profitably in the global marketplace through an unrelenting focus on QSC&V, our powerful brand, great-tasting food, convenient sites and outstanding partners.

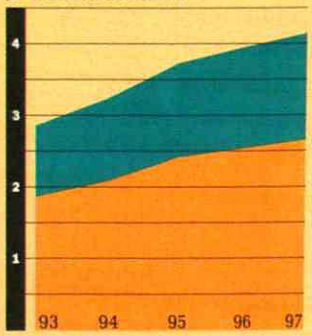
## Systemwide sales

▶ IN BILLIONS OF DOLLARS




## Combined operating margins

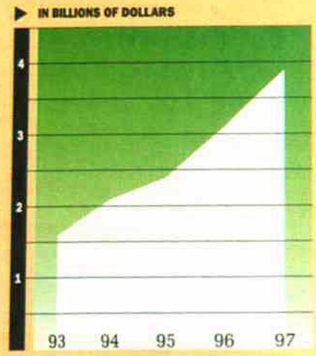
▶ IN BILLIONS OF DOLLARS




COMPANY-OPERATED
FRANCHISED

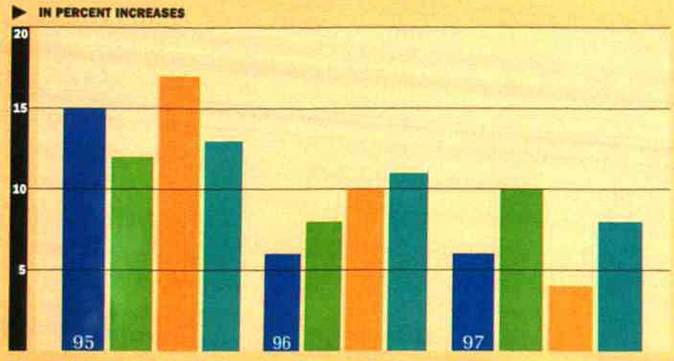
## Cumulative share repurchases

▶ IN BILLIONS OF DOLLARS




## Foreign currency translation effect on consolidated results

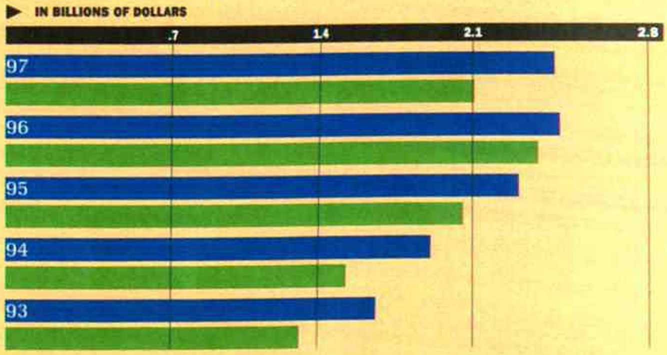
▶ IN PERCENT INCREASES




REPORTED SYSTEMWIDE SALES
ADJUSTED SYSTEMWIDE SALES
REPORTED NET INCOME
ADJUSTED NET INCOME

## Cash flow and capital expenditures

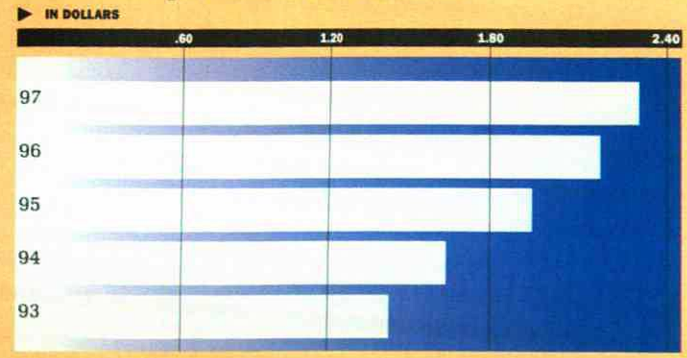
▶ IN BILLIONS OF DOLLARS




CASH PROVIDED BY OPERATIONS
CAPITAL EXPENDITURES

## Net income per common share–diluted*

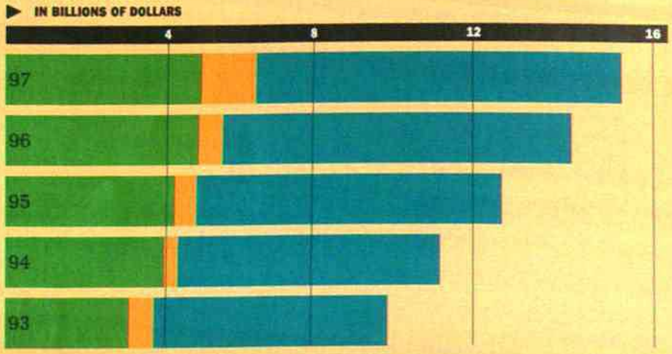
▶ IN DOLLARS




*PRESENTED IN CONFORMITY WITH SFAS 128.

## Total capitalization

▶ IN BILLIONS OF DOLLARS




FOREIGN-DENOMINATED DEBT
TOTAL DEBT
TOTAL SHAREHOLDERS' EQUITY

year-end 1997, we had purchased $1.2 billion of this amount, including 16.2 million shares for $765 million in 1997. The Company repurchased a total of $605 million of its common stock in 1996, $206 million of which completed our previous share repurchase program.

## Returns

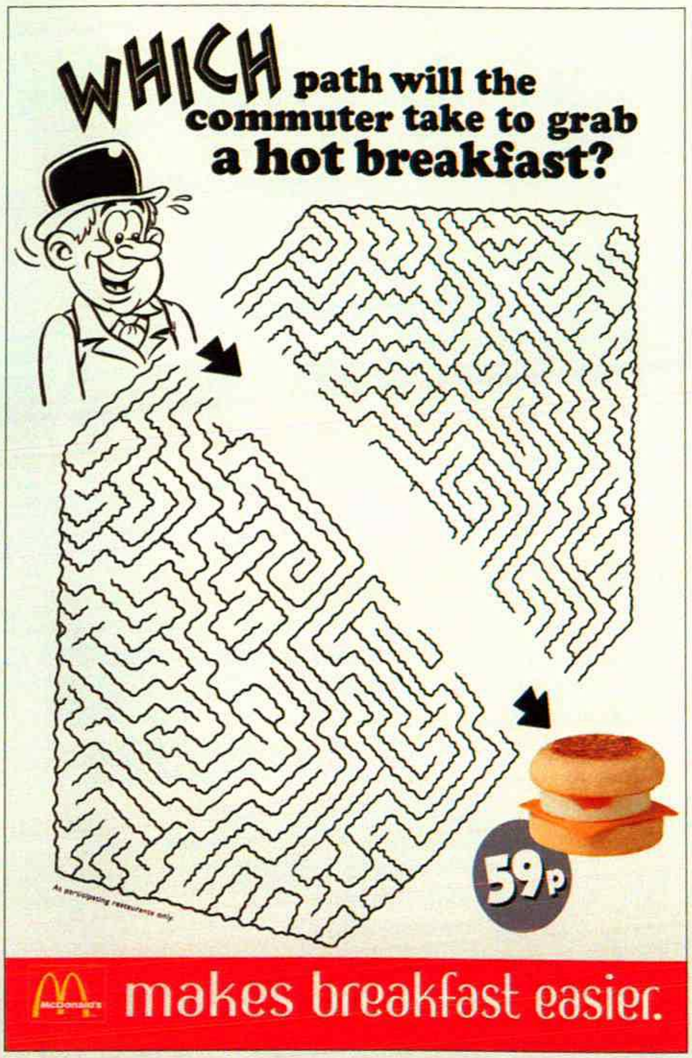
Operating income is used to compute return on average assets, while net income less preferred stock dividends (net of applicable taxes) is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

| *(As a percent)* | **1997** | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Return on average assets | **16.0%** | 16.3%* | 17.9% | 17.6% | 17.0% |
| Return on average common equity | **19.0** | 19.5 | 19.9 | 19.4 | 19.0 |

**Includes the $72 million special charge.*

Return on assets declined in 1997, as the increase in average assets outpaced the growth in operating income. Return on common equity also declined in 1997, as the increase in average equity exceeded net income growth.

*Advertisement from England.*




## Other matters

**WE HAVE THE NUMBER ONE QUICK-SERVICE RESTAURANT MARKET SHARE IN NEARLY EVERY COUNTRY IN WHICH WE DO BUSINESS.**

## Effects of changing prices–inflation

The Company has demonstrated an ability to manage inflationary cost increases effectively. This is because of rapid inventory turnover, the ability to adjust prices, cost controls and substantial property holdings–many of which are at fixed costs and partly financed by debt made cheaper by inflation. In hyperinflationary markets, menu board prices are typically adjusted to keep pace with inflation, mitigating the effect on reported results.

## Year 2000

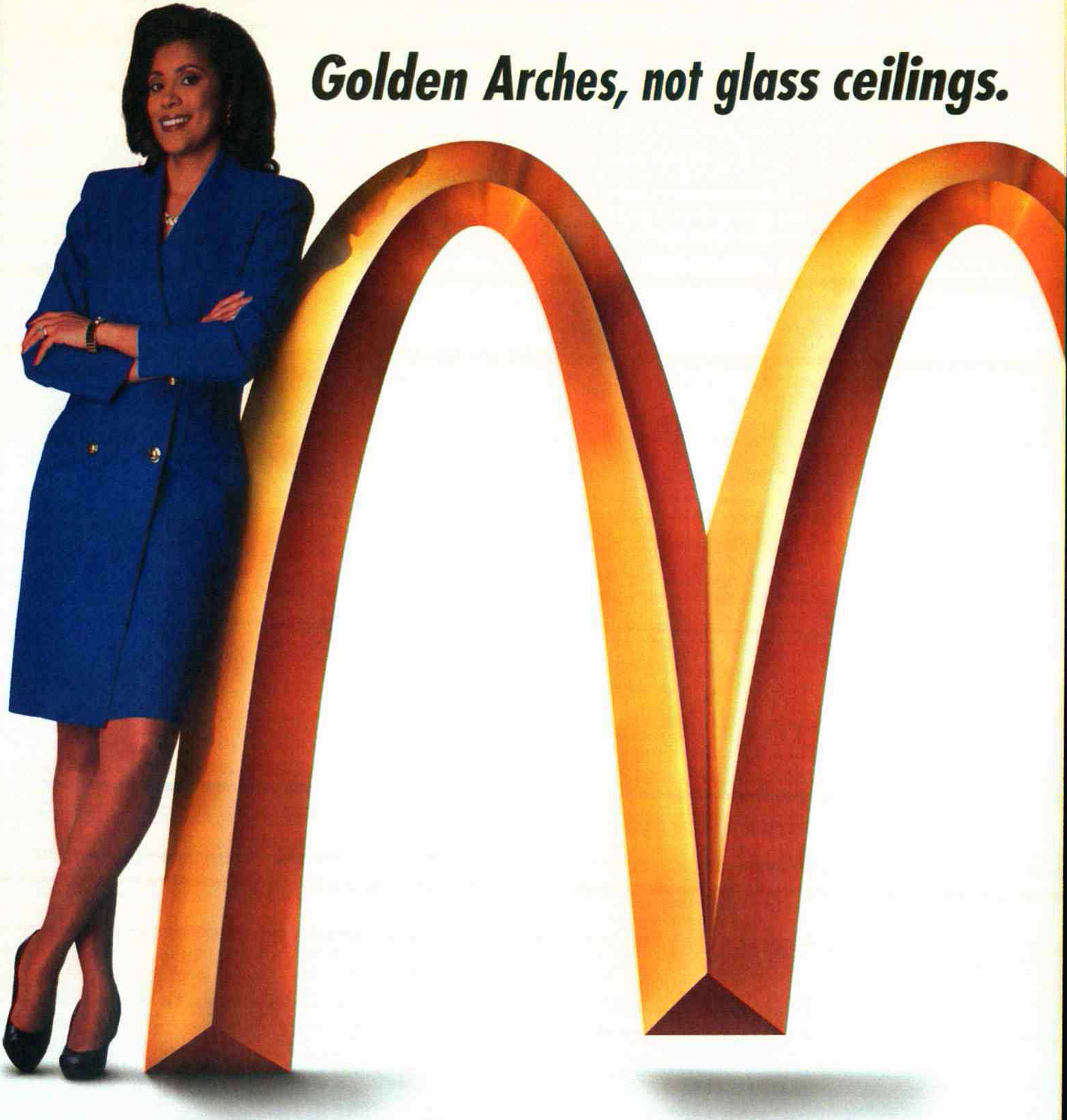
Many computer systems and applications currently use two digits to define the applicable year. As a result, date-sensitive systems may recognize the year 2000 as 1900 or not at all, which could cause miscalculations or system failures.

The Company has assessed its computerized systems to determine their ability to correctly identify the year 2000 and is devoting the necessary internal and external resources to replace, upgrade or modify all significant systems which do not correctly identify the year 2000. We anticipate that all of our systems will be year 2000 compliant well before the end of 1999. In addition, the Company has determined the extent to which its operations may be affected by the compliance efforts of its significant suppliers and is taking the necessary steps to minimize problems.

Based on current information, the costs of addressing the year 2000 issue have not and are not expected to have a material adverse impact on the Company's financial position, results of operations or cash flows.

## Forward-looking statements

Certain forward-looking statements are included in this report. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations and involve a number of risks and uncertainties. Actual results could differ materially due to the success of operating initiatives and advertising and promotional efforts and changes in: global and local business and economic conditions; currency exchange and interest rates; food, labor and other operating costs; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; availability and cost of land and construction; legislation and governmental regulation; and accounting policies and practices.


Golden Arches, not glass ceilings.

# Consolidated Statement of Income

| *(In millions, except per common share data)* Years ended December 31, | **1997** | 1996 | 1995 |
|---|---|---|---|
| **Revenues** | | | |
| Sales by Company-operated restaurants | **$ 8,136.5** | $ 7,570.7 | $6,863.5 |
| Revenues from franchised and affiliated restaurants | **3,272.3** | 3,115.8 | 2,931.0 |
| **Total revenues** | **11,408.8** | 10,686.5 | 9,794.5 |
| **Operating costs and expenses** | | | |
| Company-operated restaurants | | | |
| Food and packaging | **2,772.6** | 2,546.6 | 2,319.4 |
| Payroll and other employee benefits | **2,025.1** | 1,909.8 | 1,730.9 |
| Occupancy and other operating expenses | **1,851.9** | 1,706.8 | 1,497.4 |
| | **6,649.6** | 6,163.2 | 5,547.7 |
| Franchised restaurants–occupancy expenses | **613.9** | 570.1 | 514.9 |
| Selling, general and administrative expenses | **1,450.5** | 1,366.4 | 1,236.3 |
| Other operating (income) expense–net | **(113.5)** | (45.8) | (105.7) |
| **Total operating costs and expenses** | **8,600.5** | 8,053.9 | 7,193.2 |
| **Operating income** | **2,808.3** | 2,632.6 | 2,601.3 |
| Interest expense–net of capitalized interest of $22.7, $22.2 and $22.5 | **364.4** | 342.5 | 340.2 |
| Nonoperating (income) expense–net | **36.6** | 39.1 | 92.0 |
| **Income before provision for income taxes** | **2,407.3** | 2,251.0 | 2,169.1 |
| Provision for income taxes | **764.8** | 678.4 | 741.8 |
| **Net income** | **$ 1,642.5** | $ 1,572.6 | $1,427.3 |
| **Net income per common share** | **$ 2.35** | $ 2.21 | $ 1.97 |
| **Net income per common share–diluted** | **2.29** | 2.16 | 1.93 |
| **Dividends per common share** | **$ .32** | $ .29 | $ .26 |
| **Weighted average shares** | **689.3** | 698.2 | 701.5 |
| **Weighted average shares–diluted** | **705.1** | 716.6 | 717.7 |

*The accompanying Financial Comments are an integral part of the consolidated financial statements.*

# Consolidated Balance Sheet

| (In millions, except per share data) | December 31, **1997** | 1996 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and equivalents | **$ 341.4** | $ 329.9 |
| Accounts and notes receivable | **483.5** | 495.4 |
| Inventories, at cost, not in excess of market | **70.5** | 69.6 |
| Prepaid expenses and other current assets | **246.9** | 207.6 |
| **Total current assets** | **1,142.3** | 1,102.5 |
| **Other assets** | | |
| Notes receivable due after one year | **67.0** | 85.3 |
| Investments in and advances to affiliates | **634.8** | 694.0 |
| Intangible assets–net | **827.5** | 747.0 |
| Miscellaneous | **608.5** | 405.1 |
| **Total other assets** | **2,137.8** | 1,931.4 |
| **Property and equipment** | | |
| Property and equipment, at cost | **20,088.2** | 19,133.9 |
| Accumulated depreciation and amortization | **(5,126.8)** | (4,781.8) |
| **Net property and equipment** | **14,961.4** | 14,352.1 |
| **Total assets** | **$18,241.5** | $17,386.0 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Notes payable | **$ 1,293.8** | $ 597.8 |
| Accounts payable | **650.6** | 638.0 |
| Income taxes | **52.5** | 22.5 |
| Other taxes | **148.5** | 136.7 |
| Accrued interest | **107.1** | 121.7 |
| Other accrued liabilities | **396.4** | 523.1 |
| Current maturities of long-term debt | **335.6** | 95.5 |
| **Total current liabilities** | **2,984.5** | 2,135.3 |
| **Long-term debt** | **4,834.1** | 4,830.1 |
| **Other long-term liabilities and minority interests** | **427.5** | 726.5 |
| **Deferred income taxes** | **1,063.5** | 975.9 |
| **Common equity put options** | **80.3** | |
| **Shareholders' equity** | | |
| Preferred stock, no par value; authorized–165.0 million shares; issued, 1997–none; 1996–7.2 thousand | | 358.0 |
| Common stock–$.01 par value; authorized–3.5 billion shares; issued–830.3 million | **8.3** | 8.3 |
| Additional paid-in capital | **699.2** | 574.2 |
| Guarantee of ESOP Notes | **(171.3)** | (193.2) |
| Retained earnings | **12,569.0** | 11,173.0 |
| Accumulated other comprehensive income | **(470.5)** | (175.1) |
| Common stock in treasury, at cost; 144.6 and 135.7 million shares | **(3,783.1)** | (3,027.0) |
| **Total shareholders' equity** | **8,851.6** | 8,718.2 |
| **Total liabilities and shareholders' equity** | **$18,241.5** | $17,386.0 |

*The accompanying Financial Comments are an integral part of the consolidated financial statements.*

# Consolidated Statement of Cash Flows

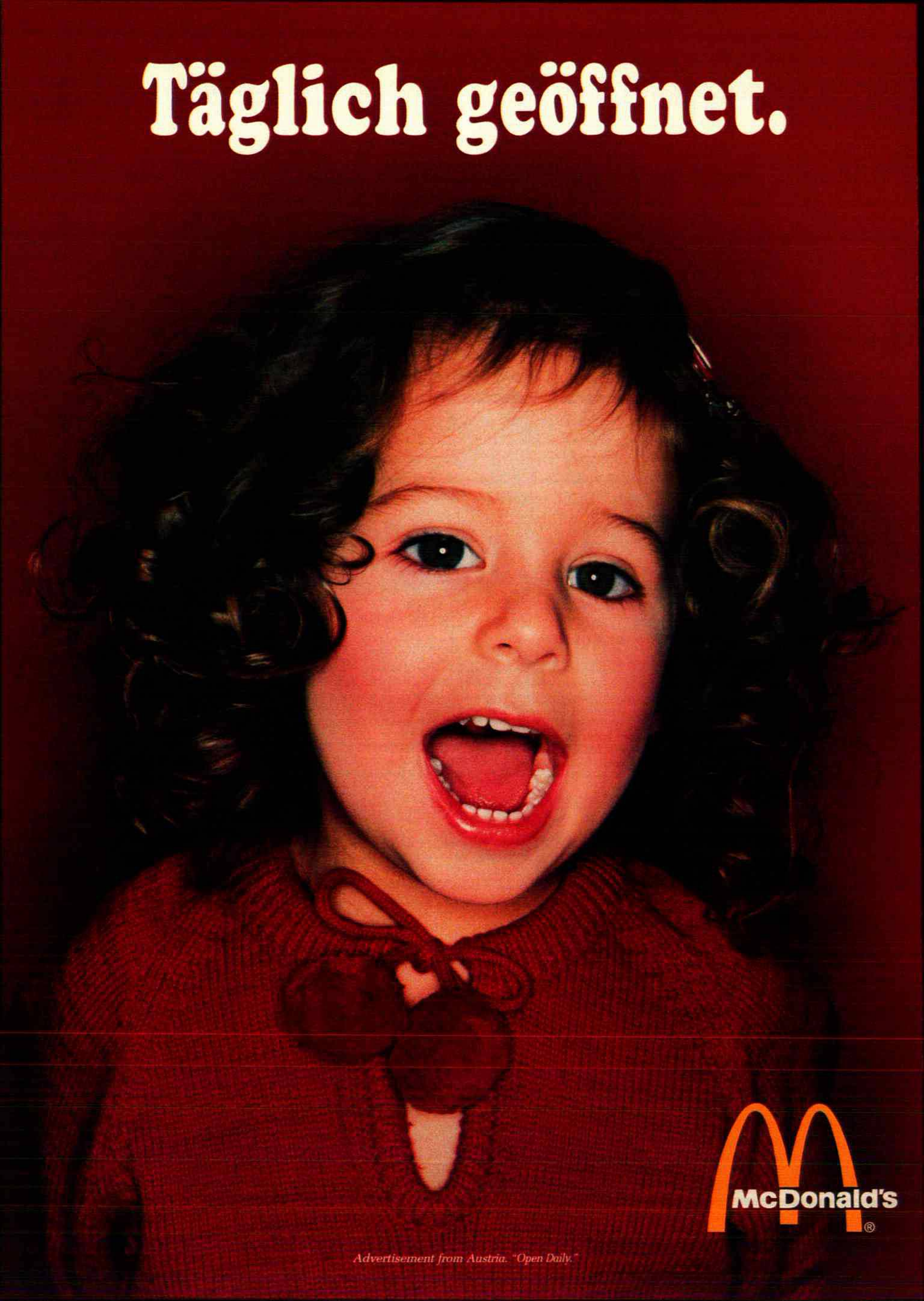
| *(In millions)* Years ended December 31, | **1997** | 1996 | 1995 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | **$ 1,642.5** | $ 1,572.6 | $ 1,427.3 |
| Adjustments to reconcile to cash provided by operations | | | |
| Depreciation and amortization | **793.8** | 742.9 | 709.0 |
| Deferred income taxes | **(1.1)** | 32.9 | (4.2) |
| Changes in operating working capital items | | | |
| Accounts receivable increase | **(57.6)** | (77.5) | (49.5) |
| Inventories, prepaid expenses and other current assets increase | **(34.5)** | (18.7) | (20.4) |
| Accounts payable increase | **52.8** | 44.5 | 52.6 |
| Taxes and other liabilities increase | **221.9** | 121.4 | 171.3 |
| Refund of U.S. franchisee security deposits | **(109.6)** | | |
| Other | **(65.9)** | 42.9 | 10.1 |
| **Cash provided by operations** | **2,442.3** | 2,461.0 | 2,296.2 |
| **Investing activities** | | | |
| Property and equipment expenditures | **(2,111.2)** | (2,375.3) | (2,063.7) |
| Purchases of restaurant businesses | **(113.6)** | (137.7) | (110.1) |
| Sales of restaurant businesses | **149.5** | 198.8 | 151.6 |
| Property sales | **26.9** | 35.5 | 66.2 |
| Other | **(168.8)** | (291.6) | (153.0) |
| **Cash used for investing activities** | **(2,217.2)** | (2,570.3) | (2,109.0) |
| **Financing activities** | | | |
| Net short-term borrowings (repayments) | **1,097.4** | 228.8 | (272.9) |
| Long-term financing issuances | **1,037.9** | 1,391.8 | 1,250.2 |
| Long-term financing repayments | **(1,133.8)** | (841.3) | (532.2) |
| Treasury stock purchases | **(755.1)** | (599.9) | (314.5) |
| Common and preferred stock dividends | **(247.7)** | (232.0) | (226.5) |
| Series E preferred stock redemption | **(358.0)** | | |
| Other | **145.7** | 157.0 | 63.6 |
| **Cash provided by (used for) financing activities** | **(213.6)** | 104.4 | (32.3) |
| **Cash and equivalents increase (decrease)** | **11.5** | (4.9) | 154.9 |
| Cash and equivalents at beginning of year | **329.9** | 334.8 | 179.9 |
| **Cash and equivalents at end of year** | **$ 341.4** | $ 329.9 | $ 334.8 |
| **Supplemental cash flow disclosures** | | | |
| Interest paid | **$ 401.7** | $ 369.0 | $ 331.0 |
| Income taxes paid | **$ 650.8** | $ 558.1 | $ 667.6 |

*The accompanying Financial Comments are an integral part of the consolidated financial statements.*

# Consolidated Statement of Shareholders' Equity

| (In millions, except per share data) | Preferred stock issued* Amount | Common stock issued Shares | Common stock issued Amount | Additional paid-in capital | Guarantee of ESOP Notes | Retained earnings | Accumulated other comprehensive income | Common stock in treasury Shares | Common stock in treasury Amount | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 1994 | $674.2 | 830.3 | $92.3 | $286.0 | $(234.4) | $ 8,625.9 | $(114.9) | (136.6) | $(2,443.7) | $6,885.4 |
| Net income | | | | | | 1,427.3 | | | | 1,427.3 |
| Translation adjustments (including taxes of $9.0) | | | | | | | 27.8 | | | 27.8 |
| Comprehensive income | | | | | | | | | | 1,455.1 |
| Common stock cash dividends ($.26 per share) | | | | | | (181.4) | | | | (181.4) |
| Preferred stock cash dividends (per share: $1.01 for Series B, $1.16 for Series C and $1.93 for Series E depositary share; net of tax benefits of $1.6) | | | | | | (40.5) | | | | (40.5) |
| Preferred stock conversion | (316.2) | | | 25.3 | | | | 8.8 | 144.6 | (146.3) |
| ESOP Notes payment | | | | | 19.0 | | | | | 19.0 |
| Treasury stock acquisitions | | | | | | | | (8.8) | (321.0) | (321.0) |
| Common equity put options expiration | | | | | | | | | 56.2 | 56.2 |
| Stock option exercises and other (including tax benefits of $42.2) | | | | 76.1 | 1.2 | | | 6.0 | 57.5 | 134.8 |
| Balance at December 31, 1995 | 358.0 | 830.3 | 92.3 | 387.4 | (214.2) | 9,831.3 | (87.1) | (130.6) | (2,506.4) | 7,861.3 |
| Net income | | | | | | 1,572.6 | | | | 1,572.6 |
| Translation adjustments (including tax benefits of $50.6) | | | | | | | (88.0) | | | (88.0) |
| Comprehensive income | | | | | | | | | | 1,484.6 |
| Common stock cash dividends ($.29 per share) | | | | | | (203.3) | | | | (203.3) |
| Preferred stock cash dividends ($1.93 per Series E depositary share) | | | | | | (27.6) | | | | (27.6) |
| Conversion to $.01 par value stock | | | (84.0) | 84.0 | | | | | | |
| ESOP Notes payment | | | | | 20.2 | | | | | 20.2 |
| Treasury stock acquisitions | | | | | | | | (12.9) | (604.8) | (604.8) |
| Stock option exercises and other (including tax benefits of $86.4) | | | | 102.8 | 0.8 | | | 7.8 | 84.2 | 187.8 |
| Balance at December 31, 1996 | 358.0 | 830.3 | 8.3 | 574.2 | (193.2) | 11,173.0 | (175.1) | (135.7) | (3,027.0) | 8,718.2 |
| Net income | | | | | | **1,642.5** | | | | **1,642.5** |
| Translation adjustments (including tax benefits of $104.0) | | | | | | | **(295.4)** | | | **(295.4)** |
| Comprehensive income | | | | | | | | | | **1,347.1** |
| Common stock cash dividends ($.32 per share) | | | | | | **(221.2)** | | | | **(221.2)** |
| Preferred stock cash dividends ($1.93 per Series E depositary share) | | | | | | **(25.3)** | | | | **(25.3)** |
| ESOP Notes payment | | | | | **21.4** | | | | | **21.4** |
| Treasury stock acquisitions | | | | | | | | **(16.2)** | **(765.0)** | **(765.0)** |
| Common equity put options issuance | | | | | | | | | **(80.3)** | **(80.3)** |
| Series E preferred stock redemption | **(358.0)** | | | | | | | | | **(358.0)** |
| Stock option exercises and other (including tax benefits of $79.2) | | | | **125.0** | **0.5** | | | **7.3** | **89.2** | **214.7** |
| **Balance at December 31, 1997** | **$ 0.0** | **830.3** | **$ 8.3** | **$699.2** | **$(171.3)** | **$12,569.0** | **$(470.5)** | **(144.6)** | **$(3,783.1)** | **$8,851.6** |

**At December 31, 1996 and 1995, 7.2 thousand shares were outstanding. These shares were redeemed in 1997.*
*The accompanying Financial Comments are an integral part of the consolidated financial statements.*



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# Financial Comments

## Summary of significant accounting policies

### Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less are accounted for by the equity method.

### Estimates in financial statements
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Foreign currency translation
The functional currency of substantially all operations outside the U.S. is the respective local currency, except for hyperinflationary countries where it is the U.S. Dollar.

### Advertising costs
Production costs for radio and television advertising are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and in selling, general and administrative expenses were (in millions): 1997–$548.7; 1996–$503.3; 1995–$431.0.

### Stock options
The Company accounts for stock options as prescribed by APB Opinion No. 25 and includes pro forma information in the Stock options footnote, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation.*

### Property and equipment
Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–lesser of useful lives of assets or lease terms including option periods; and equipment–three to 12 years.

### Intangible assets
Intangible assets, primarily franchise rights reacquired from franchisees and affiliates, are amortized using the straight-line method over an average life of about 30 years.

### Financial instruments
The Company uses derivatives to manage risk, not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term investments in or intercompany loans to foreign subsidiaries and affiliates. Foreign currency translation adjustments from gains and losses on hedges of long-term investments are recorded in shareholders' equity as other comprehensive income. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating (income) expense–net.

Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. Gains or losses from the early termination of interest-rate exchange agreements are amortized as an adjustment to interest expense over the shorter of the remaining life of the swap or the underlying debt being hedged.

The Company purchases foreign currency options (with little or no initial intrinsic value) which are effective as hedges of anticipated foreign currency royalty and other payments received in the U.S. The premiums paid for these options are amortized over the option life. Any realized gains on exercised options are deferred and recognized in the period in which the related royalty or other payment is received.

Short-term forward foreign exchange contracts are also used to mitigate exposure on foreign currency royalty and other payments received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating (income) expense–net.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then redesignated as a hedge of another item or terminated.

### Statement of cash flows
The Company considers short-term, highly liquid investments to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

### Accounting for the impairment of long-lived assets
In 1996, the Company adopted SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.* This statement requires the Company to recognize impairment losses for long-lived assets, whether these assets are held for disposal or continue to be used in operations, when indicators of impairment are present and the fair value of assets are estimated to be less than carrying amounts. The fair value of assets is based on projected undiscounted future cash flows. The adoption of this standard in 1996 resulted in a $16.0 million pre-tax charge to operating income related to certain restaurant sites in Mexico.

### Net income per common share
In 1997, the Company adopted SFAS No. 128, *Earnings per Share.* This statement requires the Company to disclose diluted net income per common share, which includes the dilutive effect of stock options, in addition to previously reported basic

net income per common share. All net income per share amounts have been presented to conform to the SFAS 128 requirements.

### Comprehensive income

In 1997, the Company adopted SFAS No. 130, *Reporting Comprehensive Income.* This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statement of Shareholders' Equity. The adoption of SFAS 130 had no impact on total shareholders' equity. Prior year financial statements have been reclassified to conform to the SFAS 130 requirements.

### Segment disclosures

In 1997, the Company adopted SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* SFAS 131 establishes standards for reporting information about operating segments and related disclosures about products and services, geographic areas and major customers.

## Other operating (income) expense–net

| *(In millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| Gains on sales of restaurant businesses | **$ (59.0)** | $(85.2) | $ (63.9) |
| Equity in earnings of unconsolidated affiliates | **(72.8)** | (76.8) | (96.5) |
| Net losses from property dispositions | **29.1** | 41.1 | 49.2 |
| Other–net | **(10.8)** | 3.1 | 5.5 |
| Special charge | | 72.0 | |
| Other operating (income) expense–net | **$(113.5)** | $(45.8) | $(105.7) |

Net losses from property dispositions in 1996 included $16.0 million for certain restaurant sites in Mexico, upon the adoption of SFAS 121. The special charge of $72.0 million in 1996 related primarily to plans to strengthen the U.S. business and reduce ongoing costs by closing approximately 115 low-volume U.S. satellite restaurants, replacing certain restaurant equipment, outsourcing excess property management and implementing other cost efficiencies.

## Employee benefit plans

The Company's program for U.S. employees includes profit sharing, 401(k) (McDESOP) and leveraged employee stock ownership (LESOP) features. McDESOP allows participants to make contributions which are partly matched by the Company. Plan assets and contributions made by McDESOP participants can be invested in McDonald's common stock or among several other investment alternatives. The LESOP and Company contributions to McDESOP are invested in McDonald's common stock.

Executives, staff and restaurant managers participate in profit-sharing contributions and shares released under the LESOP, based on their compensation. The profit-sharing contribution is discretionary, and the Company determines the amount each year. Total U.S. costs for the above program were (in millions): 1997–$57.6; 1996–$59.9; 1995–$55.8.

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 1997–$34.1; 1996–$30.6; 1995–$26.6.

Other postretirement benefits and postemployment benefits were immaterial.

## Income taxes

Income before provision for income taxes, classified by source of income, was as follows:

| *(In millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| U.S. and Corporate | **$1,004.6** | $ 933.9 | $1,026.2 |
| Outside the U.S. | **1,402.7** | 1,317.1 | 1,142.9 |
| Income before provision for income taxes | **$2,407.3** | $2,251.0 | $2,169.1 |

The provision for income taxes, classified by the timing and location of payment, was as follows:

| *(In millions)* | **1997** | 1996 | 1995 |
|---|---|---|---|
| U.S. federal | **$336.3** | $260.0 | $363.7 |
| U.S. state | **66.0** | 49.4 | 60.5 |
| Outside the U.S. | **363.6** | 336.1 | 321.8 |
| Current tax provision | **765.9** | 645.5 | 746.0 |
| U.S. federal | **2.5** | (13.2) | (17.6) |
| U.S. state | **13.5** | 1.6 | (3.9) |
| Outside the U.S. | **(17.1)** | 44.5 | 17.3 |
| Deferred tax provision | **(1.1)** | 32.9 | (4.2) |
| Provision for income taxes | **$764.8** | $678.4 | $741.8 |

Net deferred tax liabilities consisted of:

| *(In millions)* | December 31, **1997** | 1996 |
|---|---|---|
| Property and equipment basis differences | **$1,033.1** | $ 986.2 |
| Other | **426.0** | 236.7 |
| Total deferred tax liabilities | **1,459.1** | 1,222.9 |
| Deferred tax assets before valuation allowance | **(493.1)** | (348.5) |
| Valuation allowance | **41.7** | 43.2 |
| Net deferred tax liabilities *(1)* | **$1,007.7** | $ 917.6 |

*(1) Net of current tax assets (in millions): 1997–$55.8; 1996–$58.3.*

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

| | **1997** | 1996 | 1995 |
|---|---|---|---|
| Statutory U.S. federal income tax rate | **35.0%** | 35.0% | 35.0% |
| State income taxes, net of related federal income tax benefit | **2.1** | 1.5 | 1.7 |
| Benefits and taxes related to foreign operations | **(5.2)** | (6.8) | (2.9) |
| Other–net | **(.1)** | .4 | .4 |
| Effective income tax rates | **31.8%** | 30.1% | 34.2% |

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately $1.8 billion at December 31, 1997, and consisted primarily of undistributed earnings considered permanently invested in the businesses. Determination of the deferred income tax liability on these unremitted earnings is not practicable, since such liability, if any, is dependent on circumstances existing when remittance occurs.

## Property and equipment

| (In millions) | December 31, **1997** | 1996 |
|---|---|---|
| Land | **$ 3,592.2** | $ 3,566.0 |
| Buildings and improvements on owned land | **7,289.7** | 7,038.3 |
| Buildings and improvements on leased land | **6,168.3** | 5,735.5 |
| Equipment, signs and seating | **2,345.1** | 2,148.4 |
| Other | **692.9** | 645.7 |
| Total property and equipment | **20,088.2** | 19,133.9 |
| Accumulated depreciation and amortization | **(5,126.8)** | (4,781.8) |
| Net property and equipment | **$14,961.4** | $14,352.1 |

Depreciation and amortization expense was (in millions): 1997–$726.4; 1996–$673.4; 1995–$619.9. Contractual obligations for the acquisition and construction of property totaled approximately $175.0 million at December 31, 1997.

## Leasing arrangements

At December 31, 1997, the Company was lessee at 4,152 restaurant locations through ground leases (the Company leases land and owns buildings) and at 5,257 restaurant locations through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options with certain leases providing purchase options. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under operating leases with initial terms of one year or more are:

| (In millions) | Restaurant | Other | Total |
|---|---|---|---|
| 1998 | $ 512.3 | $ 46.5 | $ 558.8 |
| 1999 | 494.4 | 39.5 | 533.9 |
| 2000 | 478.5 | 31.4 | 509.9 |
| 2001 | 460.9 | 26.8 | 487.7 |
| 2002 | 442.7 | 22.2 | 464.9 |
| Thereafter | 4,059.3 | 131.1 | 4,190.4 |
| Total minimum payments | $6,448.1 | $297.5 | $6,745.6 |

Rent expense was (in millions): 1997–$641.2; 1996–$581.6; 1995–$497.6. These amounts included percent rents in excess of minimum rents (in millions): 1997–$99.4; 1996–$91.4; 1995–$73.5.

## Segment and geographic information

The Company operates exclusively in the food service industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. The Company's reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Operating income includes the Company's share of operating results of affiliates after interest expense. These amounts are also after income taxes for affiliates outside the U.S. Royalties and other payments received from subsidiaries outside the U.S. were (in millions): 1997–$470.6; 1996–$419.0; 1995–$358.4.

The corporate component of operating income represents corporate selling, general and administrative expenses. Corporate assets include corporate cash, investments, asset portions of financing instruments, deferred tax assets and certain intangibles.

The Other segment includes Canada, Africa and the Middle East.

| (In millions) | **1997** | 1996 | 1995 |
|---|---|---|---|
| U.S. | **$ 4,602.7** | $ 4,590.3 | $ 4,473.9 |
| Europe | **3,931.5** | 3,613.8 | 3,223.1 |
| Asia/Pacific | **1,522.8** | 1,272.8 | 1,010.8 |
| Latin America | **709.2** | 595.7 | 506.9 |
| Other | **642.6** | 613.9 | 579.8 |
| Total revenues | **$11,408.8** | $10,686.5 | $ 9,794.5 |
| U.S. | **$ 404.0** | $ 396.0 | $ 380.0 |
| Europe | **229.2** | 213.4 | 215.4 |
| Asia/Pacific | **82.8** | 66.4 | 57.2 |
| Latin America | **35.4** | 29.1 | 18.9 |
| Other | **42.4** | 38.0 | 37.5 |
| Total depreciation and amortization | **$ 793.8** | $ 742.9 | $ 709.0 |
| U.S. | **$ 1,210.8** | $ 1,144.0 | $ 1,252.4 |
| Europe | **1,007.2** | 953.8 | 839.1 |
| Asia/Pacific | **369.1** | 355.1 | 308.8 |
| Latin America | **166.5** | 113.7 | 132.7 |
| Other | **116.3** | 118.0 | 116.5 |
| Corporate | **(61.6)** | (52.0) | (48.2) |
| Total operating income | **$ 2,808.3** | $ 2,632.6 | $ 2,601.3 |
| U.S. | **$ 7,753.4** | $ 7,553.5 | $ 7,040.2 |
| Europe | **6,005.4** | 5,925.3 | 5,023.2 |
| Asia/Pacific | **2,125.6** | 2,111.8 | 1,815.5 |
| Latin America | **1,177.8** | 900.3 | 812.5 |
| Other | **661.6** | 622.8 | 554.6 |
| Corporate | **517.7** | 272.3 | 168.6 |
| Total assets | **$18,241.5** | $17,386.0 | $15,414.6 |
| U.S. | **$ 584.0** | $ 882.9 | $ 910.0 |
| Europe | **929.5** | 945.8 | 780.6 |
| Asia/Pacific | **277.3** | 283.1 | 183.1 |
| Latin America | **227.9** | 172.5 | 131.5 |
| Other | **92.5** | 91.0 | 58.5 |
| Total capital expenditures | **$ 2,111.2** | $ 2,375.3 | $ 2,063.7 |

Total long-lived assets, primarily property and equipment and intangibles were (in millions): 1997–$16,706.1; 1996–$16,069.8; 1995–$14,271.9; U.S.: 1997–$7,530.7; 1996–$7,234.3; 1995–$6,769.5.

## Franchise arrangements

Franchise arrangements include a lease and a license and generally provide for payment of initial fees, as well as continuing rent, service fees and royalties to the Company, based upon a percent of sales with minimum rent payments. Franchisees are granted the right to operate a McDonald's restaurant using the McDonald's system as well as the use of a restaurant facility generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. In addition, franchisees outside the U.S. pay a refundable, noninterest-bearing security deposit. The results of opera-

tions of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale.

| (In millions) | 1997 | 1996 | 1995 |
|---|---|---|---|
| Minimum rents | **$1,369.7** | $1,350.7 | $1,230.0 |
| Percent rent and service fees | **1,836.3** | 1,689.7 | 1,638.4 |
| Initial fees | **66.3** | 75.4 | 62.6 |
| Revenues from franchised and affiliated restaurants | **$3,272.3** | $3,115.8 | $2,931.0 |

Future minimum rent payments due to the Company under franchise arrangements are:

| (In millions) | Owned sites | Leased sites | Total |
|---|---|---|---|
| 1998 | $ 854.0 | $ 609.6 | $ 1,463.6 |
| 1999 | 839.3 | 603.8 | 1,443.1 |
| 2000 | 825.4 | 592.9 | 1,418.3 |
| 2001 | 809.8 | 582.1 | 1,391.9 |
| 2002 | 794.0 | 609.1 | 1,403.1 |
| Thereafter | 7,218.4 | 5,382.1 | 12,600.5 |
| Total minimum payments | $11,340.9 | $8,379.6 | $19,720.5 |

At December 31, 1997, net property and equipment under franchise arrangements totaled $8.1 billion (including land of $2.5 billion) after deducting accumulated depreciation and amortization of $2.6 billion.

## Debt financing

### Line of credit agreements

The Company has several line of credit agreements with various banks: a $675.0 million line which expires on April 19, 2002, with fees of .06% per annum on the total commitment; a $25.0 million line with a renewable term of 364 days and fees of .07% per annum on the total commitment; and $800.0 million in additional short-term lines expiring in the first half of 1998 with fees of .04% per annum on the total commitments. All agreements remained unused at December 31, 1997. Borrowings under the agreements bear interest at one of several specified floating rates selected by the Company at the time of borrowing. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling $667.1 million at December 31, 1997; these were principally short-term and denominated in various currencies at local market rates of interest. The weighted-average interest rate of short-term borrowings, composed of commercial paper and foreign currency bank line borrowings, was 6.2% and 6.4% at December 31, 1997 and 1996, respectively.

### Exchange agreements

The Company has entered into agreements for the exchange of various currencies, certain of which also provide for the periodic exchange of interest payments. These agreements expire through 2004 and relate primarily to the exchange of British Pounds Sterling, French Francs, Deutsche Marks and Japanese Yen. The notional principal is the amount used to calculate interest payments which are exchanged over the life of the swap transaction and is equal to the amount of foreign currency or U.S. Dollar principal exchanged at maturity. The Company also has entered into interest-rate exchange agreements which expire through 2011 and relate primarily to U.S. Dollars, British Pounds Sterling and French Francs. The net value of each exchange agreement based on its current spot rate was classified as an asset or liability, and any related interest income was netted against interest expense.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have significant exposure to any individual counterparty and has entered into master agreements that contain netting arrangements.

At December 31, 1997, the Company had purchased foreign currency options outstanding (primarily British Pounds Sterling, Deutsche Marks and Swiss Francs) with a notional amount equivalent to U.S. $237.9 million. The unamortized premium related to these currency options was $2.2 million and there were no related deferred gains recorded as of year end. Short-term forward foreign exchange contracts outstanding at December 31, 1997 (primarily French Francs, Deutsche Marks and Australian Dollars) had a U.S. Dollar equivalent of $85.3 million.

### Guarantees

The Company has guaranteed and included in total debt at December 31, 1997, $118.4 million of 7.3% ESOP Notes Series A and $63.8 million of 7.0% ESOP Notes Series B issued by the Leveraged Employee Stock Ownership Plan with payments through 2004 and 2006, respectively. The Company has agreed to repurchase the notes upon the occurrence of certain events. The Company has also guaranteed certain affiliate loans totaling $238.3 million at December 31, 1997.

### Fair values

| | December 31, 1997 | |
|---|---|---|
| (In millions) | Carrying amount | Fair value |
| Liabilities | | |
| Debt | $5,108.2 | $5,304.8 |
| Notes payable | 1,293.8 | 1,293.8 |
| Foreign currency exchange agreements *(1)* | 61.5 | 57.1 |
| Interest-rate exchange agreements *(2)* | | 18.5 |
| Total liabilities | 6,463.5 | 6,674.2 |
| Assets | | |
| Foreign currency exchange agreements *(1)* | 236.0 | 158.3 |
| Net debt | $6,227.5 | $6,515.9 |
| Purchased foreign currency options | $ 2.2 | $ 7.6 |

*(1) Combined notional amount equivalent to U.S. $2.1 billion.*

*(2) Notional amount equivalent to U.S. $2.4 billion.*

The carrying amounts for cash and equivalents, notes receivable and short-term forward foreign exchange contracts approximated fair value. No fair value was provided for noninterest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise arrangements.

The fair value of the debt and notes payable obligations (excluding capital leases), the currency and interest-rate exchange agreements and the foreign currency options was estimated using quoted market prices, various pricing models or discounted cash flow analyses. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of total assets was higher than their carrying value at December 31, 1997.

## Debt obligations

The Company has incurred debt obligations principally through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the effects of currency and interest-rate exchange agreements.

**Debt obligations**

| | | Interest rates *(1)* December 31 | | Amounts outstanding December 31 | | Aggregate maturities by currency for 1997 balances | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *(In millions of U.S. Dollars)* | Maturity dates | **1997** | 1996 | **1997** | 1996 | 1998 | 1999 | 2000 | 2001 | 2002 | Thereafter |
| Fixed–original issue *(2)* | | **7.2%** | 7.2% | **$ 2,487.6** | $ 2,610.8 | | | | | | |
| Fixed–converted via exchange agreements *(3)* | | **6.1** | 6.0 | **(1,869.7)** | (2,249.6) | | | | | | |
| Floating | | **5.6** | 5.6 | **646.5** | 206.4 | | | | | | |
| Total U.S. Dollars | 1998-2037 | | | **1,264.4** | 567.6 | $ 240.1 | $(240.4) | $ 55.3 | $(303.3) | $ (32.6) | $1,545.3 |
| Fixed | | **8.2** | 7.2 | **475.0** | 940.5 | | | | | | |
| Floating | | **4.1** | 3.9 | **497.8** | 136.4 | | | | | | |
| Total French Francs | 1998-2006 | | | **972.8** | 1,076.9 | 202.1 | 154.5 | 63.7 | 84.2 | 117.1 | 351.2 |
| Fixed | | **5.8** | 5.7 | **361.8** | 737.6 | | | | | | |
| Floating | | **4.0** | 3.8 | **582.6** | 390.2 | | | | | | |
| Total Deutsche Marks | 1998-2007 | | | **944.4** | 1,127.8 | 417.6 | 166.9 | 120.8 | 126.3 | 56.9 | 55.9 |
| Fixed | | **9.2** | 9.9 | **541.2** | 304.4 | | | | | | |
| Floating | | **6.5** | 6.2 | **255.3** | 256.4 | | | | | | |
| Total British Pounds Sterling | 1998-2005 | | | **796.5** | 560.8 | 442.8 | | 90.8 | 74.3 | 24.7 | 163.9 |
| Fixed | | **3.9** | 4.5 | **343.6** | 387.2 | | | | | | |
| Floating | | **0.6** | 0.8 | **203.0** | 51.8 | | | | | | |
| Total Japanese Yen | 1998-2023 | | | **546.6** | 439.0 | 95.7 | 46.0 | 38.3 | 99.6 | 76.6 | 190.4 |
| Fixed | | **9.4** | 9.4 | **114.7** | 141.7 | | | | | | |
| Floating | | **5.1** | 6.7 | **124.2** | 94.0 | | | | | | |
| Total Australian Dollars | 1998-2003 | | | **238.9** | 235.7 | 233.5 | 1.5 | 3.4 | 0.3 | 0.1 | 0.1 |
| Fixed | | **10.9** | 9.4 | **1.5** | 56.5 | | | | | | |
| Floating | | **4.1** | 3.1 | **215.6** | 73.0 | | | | | | |
| Total Canadian Dollars | 1998-2021 | | | **217.1** | 129.5 | 14.9 | 0.2 | 0.2 | (71.1) | 272.2 | 0.7 |
| Fixed | | **8.0** | 7.3 | **573.0** | 780.2 | | | | | | |
| Floating | | **6.8** | 7.6 | **673.8** | 560.8 | | | | | | |
| Total other currencies *(4)* | 1998-2016 | | | **1,246.8** | 1,341.0 | 616.6 | 174.0 | 142.3 | 144.6 | 52.6 | 116.7 |
| Debt obligations including the net effects of currency and interest-rate exchange agreements | | | | **6,227.5** | 5,478.3 | 2,263.3 | 302.7 | 514.8 | 154.9 | 567.6 | 2,424.2 |
| Short-term obligations supported by long-term line of credit agreement | | | | | | (675.0) | | | | 675.0 | |
| Net asset positions of currency exchange agreements (included in miscellaneous other assets) | | | | **236.0** | 45.1 | 41.1 | 67.6 | 30.0 | 48.0 | 21.1 | 28.2 |
| Total debt obligations | | | | **$ 6,463.5** | $ 5,523.4 | $1,629.4 | $ 370.3 | $544.8 | $ 202.9 | $1,263.7 | $2,452.4 |

*(1) Weighted-average effective rate, computed on a semi-annual basis.*

*(2) Includes $500 million of debentures with maturities in 2027, 2036 and 2037 which are subordinated to senior debt and which provide for the ability to defer interest payments up to five years under certain conditions.*

*(3) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the net effects of these and other exchange agreements.*

*(4) Consists of debt obligations denominated in 24 other foreign currencies.*

## Stock options

At December 31, 1997, the Company had three stock-based compensation plans, two for employees and one for non-employee directors. Options to purchase common stock are granted at the fair market value of the stock on date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and expiring 10 years from the grant date. At December 31, 1997, the number of shares of common stock reserved for issuance under the plans was 90.0 million, including 11.8 million available for future grants.

A summary of the status of the Company's plans as of December 31, 1997, 1996 and 1995, and changes during the years then ended is presented below:

| | **1997** | | 1996 | | 1995 | |
|---|---|---|---|---|---|---|
| Options | Shares *(in millions)* | Weighted-average exercise price | Shares *(in millions)* | Weighted-average exercise price | Shares *(in millions)* | Weighted-average exercise price |
| Outstanding at beginning of year | **72.7** | **$29.46** | 68.1 | $23.86 | 62.3 | $21.02 |
| Granted | **15.1** | **47.06** | 15.0 | 49.14 | 13.7 | 33.24 |
| Exercised | **(7.2)** | **19.25** | (7.8) | 17.75 | (6.0) | 15.76 |
| Forfeited | **(2.4)** | **35.55** | (2.6) | 32.31 | (1.9) | 24.55 |
| Outstanding at end of year | **78.2** | **$33.58** | 72.7 | $29.46 | 68.1 | $23.86 |
| Options exercisable at end of year | **30.2** | | 26.7 | | 24.4 | |

Options granted each year were about 2% of average common shares outstanding for 1997, 1996 and 1995, respectively, representing grants to approximately 11,000, 10,300 and 8,500 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

The average per share cost of treasury stock issued for option exercises was: 1997–$12.93; 1996–$13.07; 1995–$9.56. The average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises. This is because the Company prefunds the program through share repurchase. Thus, stock option exercises have generated additional capital, since cash received from employees has exceeded the Company's average acquisition cost of treasury stock. In addition, stock option exercises generated $207.8 million of tax benefits for the Company during the three years ended December 31, 1997.

| | December 31, 1997 | | | | |
|---|---|---|---|---|---|
| | Options outstanding | | | Options exercisable | |
| Range of exercise prices | Number of options *(in millions)* | Weighted-average remaining contractual life *(in years)* | Weighted-average exercise price | Number of options *(in millions)* | Weighted-average exercise price |
| $11 to 15 | 6.8 | 2.1 | $14.36 | 6.8 | $14.36 |
| 16 to 22 | 12.6 | 4.2 | 19.52 | 8.5 | 19.58 |
| 23 to 36 | 30.3 | 6.4 | 30.07 | 11.2 | 29.36 |
| 37 to 52 | 28.5 | 9.0 | 48.10 | 3.7 | 49.05 |
| $11 to 52 | 78.2 | 6.6 | $33.58 | 30.2 | $25.67 |

Pro forma net income and net income per common share were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123 and are presented in the table below:

| | **1997** | 1996 | 1995 |
|---|---|---|---|
| Net income – pro forma *(in millions)* | **$1,589.3** | $1,538.3 | $1,414.0 |
| Net income per common share – pro forma | | | |
| Basic | **2.27** | 2.16 | 1.95 |
| Diluted | **2.22** | 2.11 | 1.91 |
| Weighted-average fair value of options granted | **16.80** | 16.88 | 13.07 |

For pro forma disclosures, the options' estimated fair value was amortized over their expected seven-year life. These pro forma amounts are not indicative of anticipated future disclosures because SFAS 123 does not apply to grants before 1995. Therefore, the pro forma disclosures do not include a full seven years of grants. The fair value for these options was estimated at the date of grant using an option pricing model. The model was designed to estimate the fair value of exchange-traded options which, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following weighted-average assumptions were used to estimate the fair value of these options:

| | **1997** | 1996 | 1995 |
|---|---|---|---|
| Expected dividend yield | **.65%** | .65% | .65% |
| Expected stock price volatility | **21.3%** | 19.4% | 20.9% |
| Risk-free interest rate | **6.61%** | 6.14% | 7.39% |
| Expected life of options *(in years)* | **7** | 7 | 7 |

## Capital stock

### Per common share information

Income used in the computation of per common share information was reduced by preferred stock cash dividends (net of applicable tax benefits). In 1995, income was also reduced by $3.9 million for the one-time effect of the Company's exchange of its Series E 7.72% Cumulative Preferred Stock for subordinated debt securities, and by an additional $.4 million for the effect of the Company's repurchase of additional Series E preferred stock.

### Preferred stock

In December 1992, the Company issued $500.0 million of Series E 7.72% Cumulative Preferred Stock with a liquidation preference of $50,000 per share. One preferred share was equal to 2,000 depositary shares and was entitled to one vote under certain circumstances. In 1995, the Company completed an exchange of depositary shares equaling 2,600 shares of this preferred stock for subordinated debt securities and repurchased depositary shares equaling approximately 250 shares. The Company redeemed the remaining Series E shares for cash in December 1997.

In September 1989 and April 1991, respectively, the Company

sold $200.0 million of Series B and $100.0 million of Series C ESOP Convertible Preferred Stock to the LESOP. The LESOP financed the purchase by issuing notes guaranteed by the Company and included in long-term debt, with an offsetting reduction in shareholders' equity. In 1992 and 1995, this preferred stock was converted into a total of 15.1 million common shares.

### Change in par value

In May 1996, Company shareholders approved an increase in the number of authorized shares of Common Stock from 1.25 billion with no par value to 3.5 billion with $.01 par value. The change in par value did not affect any of the existing rights of shareholders and was recorded as an adjustment to additional paid-in capital and common stock.

### Common equity put options

In 1997, the Company sold 5.3 million common equity put options, of which 1.8 million options were outstanding at December 31, 1997. The options expire at various dates through May 1998. At December 31, 1997, the $80.3 million exercise price of these outstanding options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of premiums received.

### Shareholder rights plan

In December 1988, the Company declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock. Under certain conditions, each Right may be exercised to purchase one four-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of $62.50 (which may be adjusted under certain circumstances). The Right is transferable apart from the common stock 10 days following a public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares, or 10 business days following the commencement or announcement of an intention to make a tender or exchange offer resulting in beneficial ownership by a person or group exceeding the threshold. The threshold may be reduced by the Board of Directors to as low as 10%.

Once the threshold has been exceeded, or if the Company is acquired in a merger or other business combination transaction, each Right will entitle the holder, other than such person or group, to purchase at the then current exercise price, stock of the Company or the acquiring company having a market value of twice the exercise price.

Each Right is nonvoting and expires on December 28, 1998, unless redeemed by the Company, at a price of $.0025, at any time prior to the public announcement that a person or group has exceeded the threshold. At December 31, 1997, 2.1 million shares of the Series A Junior Participating Preferred Stock were reserved for issuance under this plan.

## Quarterly Results *(unaudited)*

| | Quarters ended December 31 | | September 30 | | June 30 | | March 31 | |
|---|---|---|---|---|---|---|---|---|
| *(In millions, except per common share data)* | **1997** | 1996 | **1997** | 1996 | **1997** | 1996 | **1997** | 1996 |
| **Systemwide sales** | **$8,530.4** | $8,284.5 | **$8,799.7** | $8,286.1 | **$8,475.1** | $7,932.0 | **$7,833.1** | $7,309.5 |
| **Revenues** | | | | | | | | |
| Sales by Company-operated restaurants | **$2,110.7** | $2,005.5 | **$2,158.5** | $1,965.6 | **$2,014.1** | $1,885.8 | **$1,853.2** | $1,713.8 |
| Revenues from franchised and affiliated restaurants | **841.9** | 816.1 | **847.5** | 808.2 | **818.5** | 779.3 | **764.4** | 712.2 |
| **Total revenues** | **2,952.6** | 2,821.6 | **3,006.0** | 2,773.8 | **2,832.6** | 2,665.1 | **2,617.6** | 2,426.0 |
| **Operating costs and expenses** | | | | | | | | |
| Company-operated restaurants | **1,726.3** | 1,638.7 | **1,756.1** | 1,582.1 | **1,640.1** | 1,523.1 | **1,527.1** | 1,419.3 |
| Franchised restaurants | **160.6** | 150.0 | **153.9** | 142.2 | **151.1** | 140.7 | **148.3** | 137.2 |
| Selling, general and administrative expenses | **393.8** | 381.0 | **375.5** | 347.9 | **347.2** | 326.3 | **334.0** | 311.2 |
| Other operating (income) expense–net | **(23.3)** | 37.9 (1) | **(34.9)** | (42.4) | **(49.3)** | (37.1) | **(6.0)** | (4.2) |
| **Total operating costs and expenses** | **2,257.4** | 2,207.6 | **2,250.6** | 2,029.8 | **2,089.1** | 1,953.0 | **2,003.4** | 1,863.5 |
| **Operating income** | **695.2** | 614.0 | **755.4** | 744.0 | **743.5** | 712.1 | **614.2** | 562.5 |
| Interest expense | **94.1** | 90.2 | **94.1** | 84.7 | **86.2** | 82.8 | **90.0** | 84.8 |
| Nonoperating (income) expense–net | **11.7** | 0.3 | **2.2** | 9.4 | **14.2** | 3.8 | **8.5** | 25.6 |
| **Income before provision for income taxes** | **589.4** | 523.5 | **659.1** | 649.9 | **643.1** | 625.5 | **515.7** | 452.1 |
| Provision for income taxes | **178.5** | 113.5 (2) | **210.2** | 209.3 | **204.9** | 205.1 | **171.2** | 150.5 |
| **Net income** | **$ 410.9** | $ 410.0 | **$ 448.9** | $ 440.6 | **$ 438.2** | $ 420.4 | **$ 344.5** | $ 301.6 |
| **Net income per common share** (3) | **$ .59** | $ .58 | **$ .64** | $ .62 | **$ .63** | $ .59 | **$ .49** | $ .42 |
| **Net income per common share–diluted** (3) | **.58** | .57 | **.63** | .61 | **.61** | .58 | **.48** | .41 |
| **Dividends per common share** | **$ .0825** | $ .0750 | **$ .0825** | $ .0750 | **$ .0825** | $ .0750 | **$ .0750** | $ .0675 |
| **Weighted average shares** | **687.6** | 695.5 | **688.5** | 697.8 | **689.7** | 699.1 | **691.6** | 700.5 |
| **Weighted average shares–diluted** | **701.8** | 712.4 | **704.4** | 715.6 | **707.3** | 718.0 | **707.5** | 721.1 |

*(1) Includes the $72 million special charge.*

*(2) Includes a $50 million tax benefit as a result of certain international transactions.*

*(3) Net income per common share data is presented in conformity with SFAS 128.*

# Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Financial Comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal control over financial reporting including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and such asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures which are communicated throughout the Company; careful selection, training, and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain high standards of proper business practices throughout the world.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that at December 31, 1997, it maintained an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented herein.

The Board of Directors, operating through its Audit Committee composed entirely of independent Directors, provides oversight to the financial reporting process. Ernst & Young LLP has independent access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION
Oak Brook, Illinois
January 22, 1998

# Report of Independent Auditors

The Board of Directors and Shareholders
McDonald's Corporation
Oak Brook, Illinois

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP
Chicago, Illinois
January 22, 1998

非同小可篇

汉堡包，诱人魅力何时了？快把广告折一折，让A与B相对折，您就能看出其中的奥妙。

A ▶ ◀ B

# 不是开玩笑

## 是谁发明

# 汉堡包

# 得个成就奖

# 该是时候了

A ▶ ◀ B

我的麦当劳

*Advertisement from Singapore. When you fold A to meet B the message reads "Extraordinarily Great!"*

# DIRECTORS AND OFFICERS AS OF MARCH 15, 1998

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*Chairman, Rio Algom Limited*

Enrique Hernandez, Jr.
*President and CEO, Inter-Con Security Systems, Inc.*

Donald Keough
*Chairman, Allen & Company Incorporated*

Donald Lubin
*Partner, Sonnenschein Nath & Rosenthal*

Andrew McKenna
*Chairman and CEO, Schwarz Paper Company*

Terry Savage
*Financial Journalist, Author and President of Terry Savage Productions, Ltd.*

Roger Stone
*Chairman, President and CEO, Stone Container Corporation*

Robert Thurston
*Business Consultant*

Blair Vedder, Jr.
*Retired COO, Needham Harper Worldwide, Inc.*

Robert Beavers, Jr.

James Cantalupo

Jack Greenberg
*Vice Chairman*

Michael Quinlan
*Chairman*

Fred Turner
*Senior Chairman*

June Martino
*Honorary Director*

## ADVISORY DIRECTORS

*(Appointed by the Board for a one-year term to serve in a nonvoting capacity)*

Brad Ball
Alan Feldman
Michael Roberts
James Skinner

## CORPORATE

Thomas Albrecht *SVP*
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Kenneth Barun *VP*
Stephen Brown *VP*
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*President and CEO–International*
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Joseph Hill *AVP*
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Jeffrey Kindler *EVP*
Bonnie Kos *VP*
Jerry Langley *VP*
Larry Long *VP*
Matthew Paull *VP*
Carleton Pearl *SVP*
Christopher Pieszko *SVP*
Michael Quinlan
*Chairman and CEO*
Michael Richard *VP*
Phillip Rudolph *AVP*
Gloria Santona *VP*
Paul Schaffhausen *AVP*
Richard Starmann *SVP*
Stanley Stein *EVP*
Fred Turner
*Senior Chairman*
John Whipple *VP*
Richard Wubbel *AVP*

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Gerald Calabrese *AVP*
Larry Chandler *VP*
Harry Coaxum *AVP*
Burton Cohen *SVP*
Michele Collins *AVP*
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Jack Daly *GVP*
James Daughtry *VP*
Ralph Decker *VP*
Lowell Dixon *VP*
Patrick Flynn *EVP*
Sophia Galassi *VP*
Michael Goldblatt *VP*
Catherine Griffin *AVP*
Patricia Harris *AVP*
Terence Haynes *GVP*
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Melvin Hopson *AVP*
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James Lynn *AVP*
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Vivian Ross *AVP*
Tom Ryan *VP*
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Marc Simon *VP*
Bruce Smith *AVP*
Eugene Stachowiak *VP*
Susan Steele *VP*
Joseph Thomas *VP*
Michael Walsh *VP*
Susan Warzecka *GVP*
David Weick *VP*
Wayne Wolf *VP*
Gene Wong *AVP*
Laurence Zwain *VP*

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Carter Drew *GVP*
Kevin Dunn *President*
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George Forrest *RM*
Philip Gray *RVP*
John T. Hall *AVP*
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Charles Strong *RVP*
Sharon Vuinovich *RVP*
Delbert Wilson, Jr. *SVP*
Stephen Zdunek *RVP*

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Michael Andres *GVP*
John Charlesworth
*President*
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David Hamilton *RVP*
Robert Melberth *SRM*
Terrence Reese *RM*
Robert Sanders *RVP*
Robert Weissmueller *GVP*
Larry Zimmerman *RVP*

### Northeast Division

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John Lambrechts *RVP*
William Lowery *RVP*
David Murphy *SRM*
David Natysin *RVP*
Willis Smart *RVP*

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Larry DeVries *RVP*
Douglas Goare *RVP*
Karen King *RM*
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Louie Mele *RVP*
Ronald Vice *RVP*
Herbert Williams *AVP*

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John Graul *RM*
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James Johannesen *RVP*
Ronald Lessnau *RVP*
Catherine Martin *RVP*
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Bernard Schaefer, Jr. *RVP*
Jeffrey Schwartz *RVP*
Donald Thompson *RM*
Michael Thompson *RM*

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*EVP, IRP*
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David Green *SVP*
Andreas Hacker *GVP, IRP*
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William Hallett *AVP*
Arnold Hansmann *AVP*
John Hartung *AVP*
Robbin Hedges *SVP, IRP*
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Roger Lexell *VP*
James Listak *VP*
Frank Muschetto *VP*
David Pojman *VP*
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Peter Ritchie *IRP*
Bill Rose *SVP, IRP*
Eduardo Sanchez *SVP, IRP*
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Stephen Simpson *VP*
James Skinner
*President–Europe Group*
Russell Smyth *VP*
Marvin Whaley *SVP, IRP*

## EUROPE

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***Bulgaria***
Branislav Knezevic *MGR*

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***Czech Republic***
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Jesper Gad Andresen
*MGR*

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Philippe Labbe
Jean-Pierre Petit

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Hans Griebler
Adriaan Hendrikx
Bernd Keller
Rolf Kreiner
Herman Liades
Josef Paxian
Gerd Raupeter *MGR*
Eva-Marie Sachse

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***Hungary***
Tim Taylor *MGR*

***Italy***
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***Netherlands***
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Rene Savelberg *MGR*
Paul Van der Stoel
Eddy Vermeir

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***Poland***
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Jennie Ienzer *MGR*

***Romania***
Marian Alecu *MGR*

***Russia***
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***Slovakia***
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***Slovenia***
Alexander Sgustav *PM*

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Philippe Walch *MGR*
Faustino Perez

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***Switzerland***
Urs Hammer *JVP*

***Ukraine***
Karl Fritz *MGR*

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Nigel Eadie
Barrie Flack
Carmel Flatley
Andrew Gibson
John Hawkes
Matthew Howe
Michael Love
George Mackay
Ian Martin
Ed Oakley
Richard Ogden
Peter Richards
Frank Stanton
Peter Sullivan
Andrew Taylor *MGR*

***Yugoslavia***
Dragoljub Jakic *MGR*

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Charles Bell *MGR*
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John Blyth
Anatolij Cork
Raymond Frawley
Stuart Giddy
Sidney Guinane
Andrew Hipsley
Stephen Jermyn
Robert Johnstone
Tony McMaster
Nicola Milne
Julie Owen
Peter Rodwell
Guy Russo

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Tim Lai
Johnny Chow
Susie Hendrickson
Joe Lau
Charles Wu
Jonathan Shih
Mickey Leung
Andrew Tan
Alan Lim
Ricky Lim
Robert Ma

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Jane Lau
Peter Tan *MGR*
Brian Weaver

***India***
Vikram Bakshi *JVP*
Amit Jatia *JVP*

***India Development Co.***
Ragvinder Rekhi *MGR*

***Indonesia***
Bambang Rachmadi *JVP*

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Akihiko Arai
Tsutomu Fujiki
Den Fujita *JVP*
Tsunayasu Goshi
Tadashi Ishida
Yasuaki Ishii
Haruo Ito
Yutaka Kobayashi
Kazunori Kondo
Hajime Saiga
Akira Tanaka
Yasuo Utsunomiya
Yasuaki Yagi
Seiya Yoshihiro

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Mohamed Shah *JVP*

***New Zealand***
Alan Dunn *MGR*

***Philippines***
Tom Trela *MGR*
George Yang *JVP*

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Robert Kwan *JVP*

***South Korea***
H.S. Kim *JVP*
Steve Shin *JVP*

***Taiwan***
Kai Chen
Steven Lee *MGR*
Dale McAllister
Sandy Tien
Douglas Tseng
August Wang
Eric Wu

***Thailand***
Dej Bulsuk *JVP*

## LATIN AMERICA

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***Bolivia***
Roberto Udler *JVP*

***Brazil***
Gerson Ferrari
Marcel Fleischmann *MGR*
Patrick Mahoney
Gregory Ryan

***Central America, Caribbean***
Jose Quijano *MGR*

***Chile***
Jose Armario *MGR*

***Colombia***
Pedro Medina *JVP*

***Ecuador***
Jose Luis Salazar Arrarte
*JVP*

***Honduras***
Ana Galeano *JVP*

***Jamaica***
Patricia Isaacs *MGR*

***Mexico***
Enrique DeAlba *JVP*
Juan Carlos Fernandez *JVP*
William Johnson *MGR*
Steve Ramirez *JVP*

***Paraguay***
Miguel Brunotte *JVP*

***Peru***
Jose Hernandez *MGR*

***Uruguay***
Rodolfo Oppenheimer *JVP*

***Venezuela***
Jerome Lyman *MGR*

## OTHER

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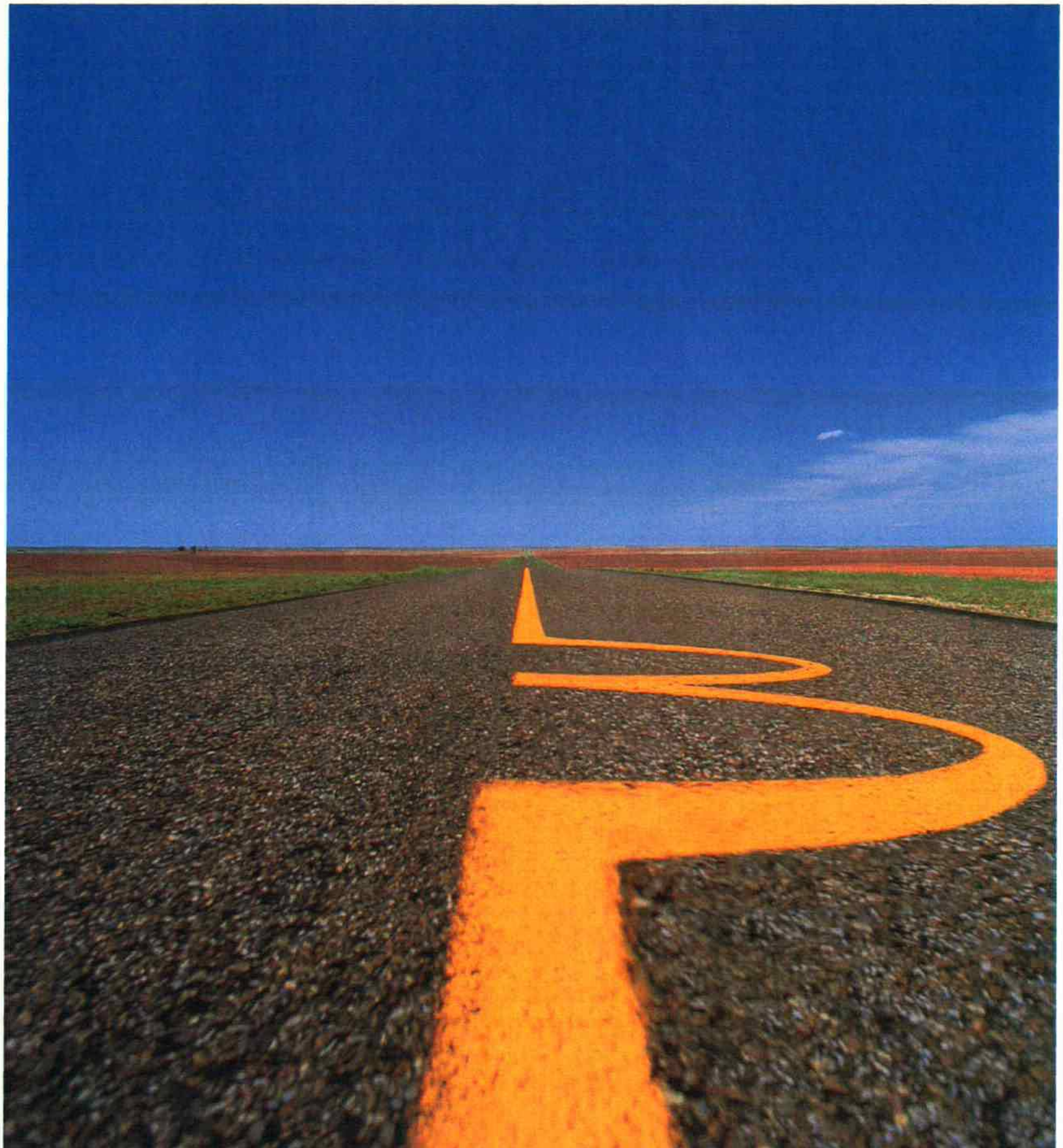
Ronald Cohen *MGR*
George Cohon
John Davis
Mary Anne Drummond
Roy Ellis
Kenneth Fong
Edgar Garber
John Hadfield
Robert Hissink
Sam Joseph
Ron Knight
Redmond Langan
Ronald Marcoux
Lawrence McCormick
George Mencke
Jack Pettitt
Kim Scrimgeour

***Egypt***
Yasseen Mansour *JVP*

***South Africa***
Darryl Webb *MGR*

***Turkey***
Dinc Kizildemir *MGR*

| | |
|---|---|
| ***AVP*** | *Assistant VP* |
| ***EVP*** | *Executive VP* |
| ***GVP*** | *Group VP* |
| ***IRP*** | *International Relationship Partner* |
| ***JVP*** | *Joint-Venture Partner* |
| ***MGR*** | *CEO/President/ Managing Director* |
| ***PM*** | *Project Manager* |
| ***RM*** | *Regional Manager* |
| ***RVP*** | *Regional VP* |
| ***SRM*** | *Senior Regional Manager* |
| ***SVP*** | *Senior VP* |
| ***VP*** | *Vice President* |



¿alguien dijo ?™

"Did Somebody Say McDonald's?"

# Q&A with some of our **toughest** critics

**We asked some kids a few questions about McDonald's, and this is what they told us:**

### How would you describe McDonald's?

It's a really fun place to play!
*Zach, age 5*

And you can eat there, too!
*Tristan, age 5*

It has really good things to eat. My favorite is Chicken McNuggets. Maybe McDonald's could make dinosaur shapes?
*Abby, age 6*

I'd like some square shapes. Then I would bite off the corners. Then it'd be a circle. Then I'd bite it again and make it back into a square.
*Zach, age 5*

### Why do you like to go to McDonald's?

Because it's my favorite place in the whole wide world!
*Andrew, age 6*

My mom takes me cause my dad's at work and I like it a lot. It has a good hamburger, even though it has pickles. I can just take them off.
*Bryce, age 5*

### Does McDonald's care about kids?

Sure. My friend had a party at McDonald's. We got to take our shoes off!
*Jenelle, age 5*

### How does McDonald's make french fries?

Take a potato and make it into a triangle. Then they cut it into long thin strips. They put it in a pan and turn it over and under and over and under and over and under.
*Christian, age 7*

They take potatoes and slice them and heat them and put them in a box area. Then they take this pan and when people want some fries, they sift them and throw them in a case and then give them out.
*Ryan, age 6*

That's what *I* was going to say!
*Sean, age 6*

### Where do you think hamburgers come from?

An ox. They just cook it, cut it in half, squish it together and put it in the oven.
*Daniel, age 5*

Some guy invented them in the 1820s.
*Ryan, age 6*

### What would you do if you owned a McDonald's?

I'd give adult toys to make parents happy. And, I'd serve ketchup sandwiches.
*Zach, age 7*

I'd put two toys in each Happy Meal!
*Jimmy, age 8*

### Why is it a Happy Meal?

Because Ronald named it and he's the boss.
*Ishmael, age 5*

Because you're so happy when you eat it! And, you're happy cause you want that toy.
*Anthony, age 5*

### If you could spend a day with Ronald, what would you do?

We'd deliver Happy Meals in Ronald's car. He drives a VW.
*Wyatt, age 5*

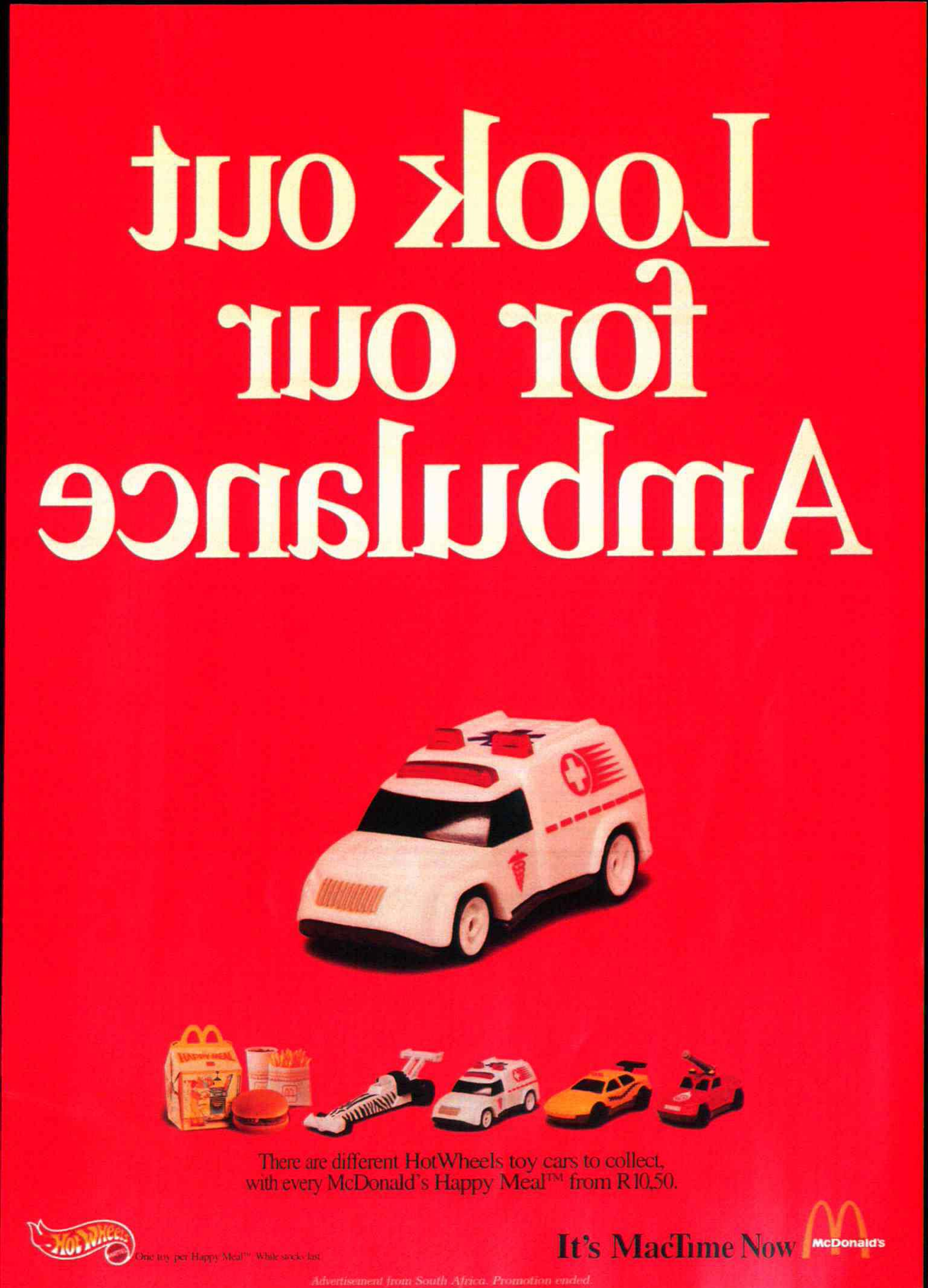
He even drives a golden car!
*Jenna, age 5*

I think he drives a truck.
*Zach, age 5*

I'd ask Ronald for a million bucks!
*Ben, age 8*

I would draw him five pictures of stuff from McDonald's. I would draw Ronald five times, and I would tell him all about the planets. I would tell him all about the pictures I drew and how good I am.
*Ryan, age 6*

*I* was thinking the same thing!
*Sean, age 6*




*Advertisement from South Africa. Promotion ended.*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